

RSE Energy Inquiry
Royal Society of Edinburgh
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Dear Chair,

‘Scotland’s Energy Future: Call for Evidence’

I am writing to you in response to the Royal Society of Edinburgh’s current independent consultation on ‘Scotland’s Energy Future’, as the Competition and Markets Authority’s (CMA) representative in Scotland (based in Edinburgh).

The CMA is the UK’s primary competition and consumer authority. It is an independent ministerial government department with responsibility for carrying out investigations into mergers, markets and the regulated industries, and enforcing competition and consumer law.

As you will no doubt be aware, in June 2014 the energy regulator Ofgem referred the retail energy market to the CMA, who undertook the most comprehensive investigation into the British energy market since privatisation. This was following growing concerns about the affordability of energy, with domestic energy prices far outstripping inflation in the previous ten years, alongside concerns about levels of profitability within the market. There were also concerns that pressure on prices was likely to grow in future, due in part to the increased costs imposed through energy policies designed to combat climate change.

Energy markets are vital to the economy and fundamental to the well-being and prosperity of households and businesses. Well-functioning energy markets must meet the twin objectives of ensuring a secure, reliable supply of energy and delivering affordable prices. Energy costs are a significant expense for domestic customers, reaching almost 10% of overall expenditure for the poorest households. Since full liberalisation of the energy markets in 2002, the sector has experienced substantial and continued regulatory change. New policies have been introduced to reduce greenhouse gas emissions, through for example supporting low carbon

electricity generation, whilst other regulatory changes have been introduced to address perceived problems in the wholesale and retail markets.

Our independent investigation assessed whether there were any features of the energy market that prevent, restrict or distort competition and, if so, whether action should be taken to remedy, mitigate or prevent the adverse effect on competition (AEC) or any resulting detrimental effects on consumers. We reported our findings and solutions in June 2016, identifying three key areas of concern within energy markets:

1. The demand side of retail energy markets, in particular a lack of engagement in the markets on the part of many customers, which suppliers are able to exploit by charging high prices
2. The supply side of both wholesale and retail energy markets – a combination of regulations and technical constraints that restrict competition on both price and quality, as well as innovation; to the detriment of customers
3. The broader regulatory framework – the system for regulating the energy sector, which hinders the timely development of policies and regulations that would be in the interests of customers

We found that 70% of domestic customers of the 6 largest energy firms were still on an expensive ‘default’ standard variable tariff, and could potentially save over £300 by switching to a cheaper deal. We concluded that domestic customers as a whole had been paying £1.4 billion a year more than they would in a fully competitive market, over the period 2012-2015, reaching £2 billion in 2015.

Our final report sets out a wide range of reforms to modernise the energy market for the benefit of customers. We have introduced over 30 measures (remedies) to drive down costs by increasing competition between suppliers and helping more customers to switch to better deals, whilst protecting those less able to benefit from competition. The remedies also bring in technical and regulatory changes to ensure the market is working in consumers’ interests. Our remedies package has 5 main aims:

- To improve efficiency in energy wholesale markets
- To create a framework for effective competition
- Helping customers to engage
- Protecting those who are unable to exploit the benefits of competition
- Future-proofing our remedies by building a robust regulatory framework

Some of these remedies include:

- Reducing costs of transmitting electricity and using competition to help ensure that financial support for low carbon generation is allocated at the lowest cost to customers

- Removing regulatory barriers to competition in retail energy markets, including lifting restrictions on offering discounts to customers and on the number of tariffs offered
- Ensuring that domestic customers on expensive default tariffs receive targeted information on the tariffs available to them, as well as other prompts to encourage them to engage in the market;
- Reducing the perceived costs or ‘hassle’ associated with switching, by enabling price comparison websites to play a more active role in helping customers find the best offers for them
- A transitional price cap being introduced for 4 million households on prepayment meters, as their options to switch supplier are much more limited. This measure should reduce those consumers bills by approximately £80 a year on average. The price cap will remain in place until the introduction of smart meters removes the limitation on these customers to access better deals
- Reforming outdated systems for measuring and charging for energy that distort competition between suppliers
- Support for micro-businesses (those that employ fewer than 10 people). 45% of micro-businesses are on default tariffs, so suppliers will now be required to publish their prices for such customers and will no longer be able to lock them into expensive ‘rollover’ contracts
- Reducing the distinct disadvantage faced by domestic customers with ‘restricted meters’, by ensuring electricity suppliers make all their single-rate tariffs available to them, without the need to replace their meters. Suppliers also need to ensure these customers have access to information on the switching options available to them, making it easier for these customers to move to cheaper tariffs. This remedy is of particular significance in Scotland, given a proportionately larger number of electricity consumers are on restricted meters
- Ofgem will be given much greater influence over the detailed codes that govern the work of the energy market

The remedies have been accomplished via a combination of CMA Orders imposed on the market, undertakings from companies, and recommendations to Ofgem and Government. Links to an overview of our investigation, a summary of our final report, and the full report itself can be found below, which you may find useful for your consultation, particularly in relation to question 10 regarding the accessibility, affordability and transparency of energy markets:

[CMA Energy Market Investigation: Overview](#)

[CMA Energy Market Investigation: Summary of Final Report](#)

CMA Energy Market Investigation: Final Report

We would welcome the opportunity for our colleagues at the CMA to discuss our findings relating to competition in the energy market with you in more detail. Please do not hesitate to contact us at the CMA office in Scotland to arrange this if it is of interest.

Yours Sincerely

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