

EDW – Is OFGEM’s Plan of Mandatory Auctions a Good One?

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Regulatory body OFGEM has announced a new move that they hope will open up the electricity market to greater competition. The plan sets out clear objectives that the government body would like to see the Big Six comply with, in order to enhance competition and ensure independent suppliers can buy wholesale power more easily. The concept of mandatory auctions will force the pace of change and increase transparency in the market – something that has been lacking for many years.

OFGEM’s roadmap has three objectives – to boost the availability of a range of products that support hedging, more robust reference prices to show how much power would cost in the future, and to create an effective short/near-term market. While the plan seems to have all the hallmarks of success, industry watchers suggest that even this commendable scheme will not fully address the needs of independent suppliers.

“Liquidity is an important feature of a well-functioning market,” comments EDW Service Delivery Director Graham Paul. “The current market is dominated by the Big Six vertically integrated players, which own both generation and supply businesses. A key feature of a liquid market is that it has to have a large number of buyers and sellers willing to do business at all times, leading to significant volumes of individual trades. The Big Six’s hold on the market has, until now, been preventing the market from being a truly fluid one,” he adds.

Breaking the Big Six

The Big Six now account for over 70% of the UK’s generated power. The remaining volume generators made up of key players like Drax Power and GDF Suez have both in recent years established retail businesses targeting the industrial and commercial sector and SMEs. This will result in even lower levels of liquidity in the wholesale market. “Generators can sign confidential bilateral contracts with retailers outside the wholesale market,” explains Graham. “This leads to a lack of reliable price signals, which in turn deters investment in new generation assets from anyone other than the Big Six.”

Promoting a liquid market

So will OFGEMs proposed changes shift the focus and open up opportunities for new players to move in? Graham Paul thinks it will. “These changes are a crucial step towards promoting a liquid market,” he comments. “Transparent prices are needed as a basis for investment decisions. Improved price information and market access are vital for independent generators looking to hedge output forward at a fair price, and on timescales that are consistent with the availability of fuels. The OFGEM proposals, which cover everything from more optionality for selling generation through to flexible generation that matches retail demand, are needed to move the industry into a new and more open period. Only then can we say that we have a truly liquid market,” he concludes.

-ENDS-

Notes for Editors:

About EDW:

EDW have a long history in developing, implementing and supporting best-of-breed software solution for retail electricity billing and customer management including their bespoke electricity pricing software (<http://www.edwt.org/products/quote-lab>) for the industrial and commercial market sector.

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