

Recent changes in the UK retail electricity market

April 2019

Ofgem reports that the number of electricity suppliers in Great Britain increased from 27 in December 2014 to 73 by June 2018. A significant number of the new entrants were small to medium sized suppliers with lower fixed costs, which benefited from cheaper wholesale prices. These now account for around 25% of the total market share. This increased competition has benefited consumers, but has not been without risk, with eight suppliers including Spark Energy and One Select failing last year.

Ofgem proposals

Ofgem has found that while some small suppliers outperform larger suppliers in customer service, others have not been able to maintain standards as their businesses grow. A number of smaller suppliers have faced financial difficulty. This led to Ofgem using its “supplier of last resort” process to protect consumers.

The large number of suppliers failing last year has led to concerns that protections for consumers are inadequate, with new entrants offering a low tariff to attract customers and failing to maintain standards for financial stability and customer service.

Ofgem is conducting a review of supplier licencing arrangements in Great Britain with a view to ensuring that appropriate customer protections are in place. It looks at the assessment of supply licence applications and ongoing oversight of those operating in the market – potentially introducing additional information requirements and ongoing financial tests. The review closed on 23 January 2019 and is awaiting decision.

Observations

The proposed financial and operational tests risk imposing a layer of bureaucracy which may impede market competition. Ofgem will need resources to conduct such tests efficiently and, if reporting on the adequacy of financial and operational resources results in licences being

reviewed on a regular basis, this could lead to uncertainty. There is already a “supplier of last resort” process which has proven effective and the failures we have seen may represent a market consolidation process which, without a need for additional intervention by Ofgem, could resolve itself. The price cap introduced in January 2019 could also have unintended consequences and ideally will be a temporary measure, with a strategy in place for its removal at the appropriate time.

We expect that developments in “smart” infrastructure may encourage suppliers to package other products and services with electricity supply. This has already started, with suppliers looking at home energy storage and two-way electric vehicle chargers to provide consumers with products that take advantage of “smart” infrastructure. With increased intermittent renewable generation and demand from electric vehicles, we are likely to see suppliers offering cheaper tariffs and innovative products to incentivise charging at non-peak times and behaviour which helps make efficient use of capacity. The decentralised energy storage made available through a platform of home energy storage and two-way electric vehicle chargers may also be used to provide services to the grid and improve efficiency.

A number of the “challengers” are supported by large corporations. We have been at the forefront of such key developments, including advising Impello Limited (the parent entity of the First Utility group) on its sale to The Shell Petroleum Company Limited and Mitsubishi’s acquisition of a strategic interest in OVO. These suppliers have the potential to contribute to the development of this market and the introduction of a range of products and services.

Contacts

Mike Corbett
Partner
T +44 (0)20 7090 3431
E mike.corbett@slaughterandmay.com

Adrian Barrus
Senior Counsel
T +44 (0)20 7090 3393
E adrian.barrus@slaughterandmay.com

Case study: OVO Energy

We worked with Mitsubishi on its acquisition of a strategic interest in OVO Energy - see our full press release [here](#).

OVO Energy is an independent energy supplier with an intelligent energy technologies business involving the integration of electric vehicles and dynamic battery storage with the grid. The “smart” platform seeks to use market signals to control a network of home energy storage batteries and electric cars to improve efficiency of the grid and generate savings for its customers. The electricity supply can then be packaged with these other products and services.

