Energy suppliers forum
Setting the agenda

Nigel Cornwall
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Main concerns of smaller suppliers

- Liquidity in wholesale market
- "Fear of cash-out"
- Cost of new entry processes and accreditation
- Cost of credit cover
- Quality of customer data and transfer rule gaming
- Lack of competition for agency services
- Regulatory risk and governance

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Liquidity

- Too fewer sellers and lack of liquidity
- Smaller suppliers entrants find it costly and difficult to buy
- Large players more risk averse, and reluctant to deal with small suppliers
- Counter trend to most European markets
- At least this is now on the policy agenda

We have been too ready to deflect blame onto Europe when the problem is much closer to home and requires urgent attention

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Fear of cash-out

- Flip side of market illiquidity
- General agreement that cash-out does not meet design objectives
  - high levels of system pollution which falls on parties less able to balance
- Industry governance has inhibited rectification
- Now no prospect of reform before mid 2009

With winter prices running at £90/MWh (more to come?) current distortions will be amplified.

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New entry processes

- Any supplier aiming to meet domestic load of +2.5MW has to undertake entry
- IT systems and processes for data transfer have to be approved
- Supplier hub and agents
- Time consuming and costly
    - can take 3 months and costs over £0.25m
    - but can also take significantly longer and a lot more if intention is to grow

Baptism of fire with lots of smoke

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Credit cover

- Multiple demands:
    - for generation, networks, cash-out
    - costly and disproportionately burdensome on smaller participants
- Networks do not need such cover:
    - costs of new entrant failure relatively small
- Some activity by Ofgem and through codes:
    - need for joined up appraisal

Smaller players have tried to bring focus and change but with very modest results

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Agency services

- Suppliers need metering, data collection and aggregation services
- But are services fair/competitive?
  - incumbents are tying up lower cost providers and withdrawing service provision
- Many concerned about getting accurate readings at reasonable price, with good service

Policy has been naïve. Until there is real choice, there should be requirements on former hosts to make available their service providers

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Data and its (ab)uses

- Entrants depend on customers switching
- System provides poor data on customers
  - expensive and time-consuming to cleanse
- Customer Transfer Programme has led to some improvements
- Still real problem of strategic behaviour:
  - tactical use of objections and transfer blocking
  - reoffering and "guzumping"

Regulatory vacillation has not helped. Is it realistic to expect incumbents to solve these issues?

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Regulatory and governance burden

- Regulation more costly for smaller suppliers
- Supply Licence Review has helped but tip of the ice-berg
- Two examples:
  - green tariffs
  - structure of distribution charges
- Code issues and user-friendliness

Smaller suppliers are neurotic about the regulator. They want Ofgem to do less but more of the right thing (but don't we all).

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Conclusions

- Smaller suppliers are many and varied but:
  - some would agree with all of my concerns
  - all would agree with some of them
  - all are keen to be engaged in debate
- Action needed if new entry and smaller suppliers are to continue to provide benefits
- In practical terms clear recommendations from Berr committee for regulatory action:
  - to stimulate market liquidity especially in electricity
  - further cash-out reform
  - reduce market complexity and increase transparency

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Thank you

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