

David Hunt  
Retail Markets  
Ofgem  
9 Millbank  
London  
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16 March 2012

Dear David,

## THE RETAIL MARKET REVIEW – DOMESTIC PROPOSALS

Ofgem's Retail Market Review presents an ideal opportunity for stakeholders and industry to work together to ensure that the energy retail market works effectively for consumers, through strong competition, supported where necessary by consumer protection regulation.

The problems of the retail energy market in recent years and the consequent general lack of trust are widely acknowledged; we believe that suppliers and Ofgem need to work together to address these problems by improving the domestic energy market. The remedies Ofgem has proposed include many that we can support and which will help consumers. However, the RMR core tariff proposal amounts to one of the most radical interventions in the operation of the retail market yet to be considered. It is therefore essential that it is thoroughly analysed and tested.

To inform our response we engaged independent consultants, Oxera, to carry out an economic appraisal of the impact of the core tariff proposal and the evidence to support it. We also commissioned YouGov to conduct independent research into consumer reactions to issues raised within the consultation. We are providing copies of both these reports in support of this response.

Generally, we are supportive of remedies that will promote transparency, clarity and a consistent level of service for customers. We broadly agree with the proposals on:

- **Strengthening probe remedies.** We generally support proposals to strengthen the original probe remedies to create more consistency for consumers. We would be pleased to work with Ofgem to embed this policy further as part of an ongoing process of robust but balanced engagement; but where Ofgem feels that new Licence Conditions are necessary, we can broadly support these. We fully support plans to grow consumer trust in switching sites.
- **Standards of conduct.** We support the intention behind the proposed new Standards of Conduct and agree that these are standards that all customers should expect to receive when dealing with their energy supplier. However,

their simplicity and breadth risks difficult questions of interpretation on enforcement. On that basis, we support their inclusion in new supply licence conditions using a two-stage enforcement process. This would allow for a reasonable dialogue between Ofgem and suppliers before moving to formal enforcement action and therefore make such a broad ranging Licence Condition workable.

- **Information measures.** We support measures to present clearer, more standardised information to customers on individual products and tariffs. Such remedies should be aligned to the ways in which customers engage in the market and the information they need at each point. We would also support measures to align language across the industry and better educate customers on tariffs, switching and the energy market. We think that addressing each of these issues will bring real benefits for consumers without any adverse impact on competition.

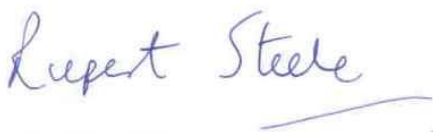
We do not support proposals which risk weakening competition and harming consumers, where the risks and benefits have not been thoroughly evaluated. We are concerned that the RMR core tariff proposals (in particular the restrictions on tariff types) will have a range of adverse impacts on competition which will outweigh any benefits from improved comparability. We think that they would make it much harder for us to grow our business through competition and we are concerned that they could reduce, rather than increase, consumer engagement, leading to calls to re-regulate the industry. We do not think that the survey and testing work undertaken by Ofgem supports the conclusions drawn, or that it is necessary for consumers to compare raw tariff rates (though this information should be available) in order to make accurate switching decisions based on quotations. The independent Oxera report supports our concerns in these areas.

We urge Ofgem to conduct a thorough impact assessment of the risks to competition from these proposals, and a more rigorous analysis of the mechanisms by which improved tariff comparability may translate to substantive welfare benefits.

We wish to be clear. We are not opposing change that would benefit consumers, nor are we suggesting that Ofgem is wrong to consider a radical approach. However, we do consider that the current proposals will not achieve their objectives and are likely to pose severe risks to the competitive market. Given the seriousness of these issues, should Ofgem continue on this path without providing evidence that deals with our and Oxera's concerns, we would consider it desirable that the proposals receive independent review.

Our full response to Ofgem's proposals is set out in Annex 1 and 2 to this letter. We have also answered the questions posed by Ofgem in Annex 3. When you have had a chance to consider our response, we would like an opportunity to discuss our concerns with you. In the meantime, please contact me on the details above if you have any questions.

Yours sincerely,



Rupert Steele  
**Director of Regulation**

**Enc:**

1. Scottish Power consultation response, Annexes 1 to 3
2. Oxera report: 'Economic appraisal of Ofgem's domestic tariff proposals – An appropriate intervention to increase consumer engagement?', March 2012
3. YouGov report: 'Ofgem Proposals Omnibus Research', February 2012