



Energy suppliers, customers,
consumer organisations and
representatives, academics and
other interested parties

*Promoting choice and
value for all customers*

Ref: 30/08

27 March 2008

Dear Colleague

Energy Supply Markets Probe – Call for Evidence

On 21 February 2008 Ofgem announced that it would be launching an investigation into the markets in electricity and gas for households and small businesses. This open letter is a call for market participants, consumers and other interested parties to comment on a number of aspects of the energy retail markets and to provide evidence supporting these comments.

In response to mounting consumer and public concern over the competitiveness of the market for gas and electricity, and as part of our work on behalf of customers, we plan to investigate a range of aspects of the GB retail energy markets. Specifically, the investigation will cover:

- The customer's perspective and experience of the market including access to information and barriers to switching suppliers;
- Suppliers' market shares, switching rates for different groups of customers (such as online, dual fuel, single fuel and prepayment);
- The competitiveness of suppliers' pricing of the different market segments and customer movement between payment types and suppliers;
- The relationship between retail and wholesale energy prices; and
- The economics of new entry and the experience of companies trying to enter the energy market.

The aim of this Call for Evidence is to obtain information and data from market participants and other interested parties to assist us in our in-depth examinations of these areas of the market. This will subsequently help us to reach a conclusion on what course of action, if any, should be taken going forward.

Information gathering and next steps

In addition to information collected as part of this Call for Evidence, we will gather data and information from market participants using Ofgem's formal information gathering powers under the Enterprise Act 2002. We will also undertake consumer research into customers' experience of the gas and electricity retail markets and their ability to exercise choice. This will include incorporating the findings of recent consumer research which we have undertaken as part of the Consumer First project.

We will also be holding a Fuel Poverty Summit on 23 April 2008 which will be chaired by Sir John Mogg, the chairman of Ofgem's governing Authority. The summit will focus on issues

affecting vulnerable customers' access to better choices in the gas and electricity markets and commitments to action that will help those most vulnerable to get a better deal from their energy suppliers.

Responses to this Call for Evidence are due by **30 April 2008** and Ofgem plans to report on its initial findings from the investigation in September 2008.

Call for Evidence

Ofgem is inviting all market participants and other interested parties to comment on a number of aspects of the energy retail markets and to provide evidence supporting these comments. Information submitted in response to this letter will help to shape the direction that our work will take during the coming months. At this stage in the investigation we would be interested in views and evidence in the following areas:

The customer's perspective and experience of the market:

- What is customers' experience of the market?
- What are the main barriers to switching?
- To what extent do particular groups of customers find switching difficult and why?
- Do customers engage effectively in the market, i.e. by switching to a better deal?
- What incentivises customers to switch (price, service etc)?
- What information do customers need to engage in the market?
- What are the current limitations with the information already available?
- What is the role of price comparison sites in the market and to what extent are they effective in this role?
- What are customers' experiences and perceptions of the roles of other sales channels (doorstep sellers, telephone sales etc)?
- What are customers' perceptions of suppliers and how does supplier branding impact on customers' decisions to stay or switch?

Suppliers' market shares and switching rates for different groups of customers:

- To what extent have incumbent suppliers held onto market share?
- To what extent is this more prevalent in particular regions in Great Britain?
- If it is, what are the reasons for this?
- How do switching rates vary between different types of customer (e.g. by payment type, age, income, social characteristics etc)?
- What are the reasons for any variations?

The competitiveness of suppliers' pricing:

- What determines suppliers' pricing of different products, payment types and in different regions?
- To what extent do suppliers compete to win customers through their pricing in different segments of the market?
- To what extent do customers respond to any differences in prices between payment methods or suppliers?
- What drives price differences and the timing of price increases and decreases?

The relationship between retail and wholesale energy prices:

- What is the impact of vertical integration, suppliers' hedging strategies and long term contracts on energy retail competition?
- To what extent do suppliers' procurement strategies for procuring energy on the spot, forward and contract market explain recent developments in the relationship between wholesale and retail prices?
- What other factors are important in understanding this relationship in recent years?

Potential barriers to entry:

- What are the main factors that facilitate or restrict entry into the supply markets, and how significant are each of these factors?
- Why has there been little new entry in the supply markets?
- We would be particularly interested in hearing from parties who have considered entering the market or have entered and subsequently exited.

Competitive conditions:

- Are there any features, or combination of features, of the energy market which restrict or distort competition?
- What is the impact of past and future horizontal consolidations and vertical integration on energy retail competition?
- What is the impact of the regional structure of the energy retail markets in GB and what is the role of incumbents?
- What is the impact of the transparency of pricing behaviour?

In addition to the points of interest set out above, in relation to the experience of small business customers in the energy markets we would also be interested to hear specific views in the following areas.

Small business customers:

- What has been the experience of small business customers in the supply markets?
- To what extent is information (e.g. on price, service etc.) available to small business customers to help them engage in the market?
- To what extent do energy contracts for small businesses allow customers to make informed decisions about their choice of supplier?
- What is the impact of the rules relating to suppliers' ability to object to a small business customer switching supplier?
- What role do agents and intermediaries play in the market?
- What are small business customers' experiences of suppliers' marketing channels?

As the process of information gathering and analysis is iterative, our lines of investigation are subject to change in the course of the probe. The points above are not exhaustive in that we do not exclude the possibility of other issues being considered as a result of evidence presented to Ofgem during the course of the investigation. It should also be noted that the investigation will only examine the operation of wholesale markets to the extent that they impact on the functioning of retail markets.

Responding to the Call for evidence

We would be grateful if responses can be received by 30 April 2008. Please note that Ofgem will also be contacting specific bodies to obtain evidence we believe necessary to reach a conclusion on what course of action, if any, should be taken going forward.

It would greatly assist the Ofgem team if your submissions could be structured as responses to the specific issues set out in the bullets above.

In addition, evidence to support the views being made should include the following:

- if this includes data or financial figures, precise definitions, the dates and source of the data should be provided
- if this includes detailed calculations, an annexe or spreadsheet which allows Ofgem to replicate these calculations should be provided.
- if this includes specific examples of events, a chronology and background to the events should be provided

- if this includes comparators, the reasons why you consider the comparator to be appropriate should be provided
- if you are willing to answer questions further to your submission, a named point of contact and contact details including telephone number, whom the case team can contact should be provided.

Ofgem recognises that it is not always the case that evidence is available to companies to support their views. Companies may be able to suggest information Ofgem should seek out. However, Ofgem may not be in a position to pursue all avenues of study. Where no evidence is provided, the weight Ofgem can place on the views is lower than where evidence is provided.

Please clearly indicate which (if any) specific parts of the submission are confidential and should not be made publicly available.

If the submission is representing a business please provide:

- the company name and ultimate ownership
- a brief summary of the activities of the company
- details of any other interests in energy supply companies either in the UK or abroad as a supplier, owner, customer or business partner.

Please e-mail responses to energysupplymarketsp@ofgem.gov.uk by 30 April 2008.

If you have any questions regarding this letter please contact Claire Rozyn (claire.rozyn@ofgem.gov.uk; 020 7901 7216)

Yours sincerely,

Andrew Wright
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