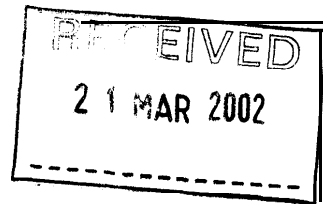




Ann McKechin MP

Serving The Community of Glasgow Maryhill

Iain Osborne
Director, Supply
Office of Gas and Electricity Markets
9 Millbank
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20 March 2002

Dear Iain

**Review of Domestic Gas and Electricity competition and supply price regulation
Conclusions and Final Proposals**

I am writing to you regarding the recent publication by **Ofgem** of its final proposals to abandon price controls as a tool for regulating the energy supply markets in the UK, and as a method of protecting vulnerable consumers. I understand that **Ofgem** is convinced that the gas and electricity supply markets are now developed to such an extent that competition provides adequate protection to all consumer groups, and that price controls represent a distortion in the working of those markets.

As a representative of a constituency where fuel poverty is a real issue, I am extremely concerned about the effect these proposals will have on a large number of my constituents. I am also extremely disappointed that **Ofgem** has seen fit to ignore the legitimate concerns raised by numerous consumer groups during the consultation phase, particularly insofar as these concerns related to Scotland.

The Existence of a Functioning Market

I share the concerns raised by **energywatch** and others over the reliance by **Ofgem** on statistically flawed "switching" data in the MORI research as evidence of a functioning market. Both in terms of the small sample size, and of the failure to analyse the extent of "multiple switching", the data is no basis for the sweeping claims made by **Ofgem** in its final proposals.

In Scotland, it is clear that the vertical integration of the Electricity suppliers is a significant barrier to the creation of a fair marketplace, a fact which even **Ofgem** concedes in its BETTA paper in December 2001. I fail to understand how **Ofgem** can claim a fair marketplace exists at the same time it is conceding it will be over 3 years before such a market exists in electricity supply in Scotland.

Taking figures from the MORI research, over 60% of people have not switched supplier, a figure which is even higher in Scotland, and higher again among PPM consumers. Of those who have switched, more than 50% made the switch on the basis of supplier information, and not on the basis of informed comparison. I would contend that this is strong evidence that many are not aware of the market, and many of those who are aware of it do not understand it.

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PPM customers – Reliability of research

Ofgem has stated that it has given particular attention to PPM customers in coming to its decision. Again, I am surprised that this special attention amounts to interviews with only 217 Gas PPM customers and 420 electricity PPM customers nationwide. I am sure many people would be surprised that a nationwide policy decision could be based on such flimsy research.

Competitive Offers for PPM customers

If, as Ofgem contends, the competitive market is as beneficial to PPM customers as it is to standard tariff customers, one might reasonably expect to find that PPM customers were able to enjoy savings equal to those on other tariffs. However, using evidence from Ofgem and MORI, PPM customers in the Gas market can save a maximum of 5.6% through switching, while other customers can save up to 19%. This is clear evidence that the market is not working to the benefit of the disadvantaged.

Debt Blocking

I am concerned that those consumers who remain in debt are excluded from the marketplace as switching to a new supplier can be difficult, often impossible. While I appreciate that Ofgem is trying to address this issue through a debt blocking trial, this trial provides no guarantee that suppliers will eventually allow consumers to switch freely. Until this issue has been fully resolved, substantial numbers of consumers will be unable to benefit from competition.

Teleswitching

Many consumer groups commented on the 200,000 Scottish consumers on tariffs which allow the existing suppliers remote access. As new suppliers do not have access to such technology, these consumers are effectively stranded with their existing suppliers. energywatch produced evidence that this consumer group is already being treated unfairly, compared to standard tariff customers. If price controls are removed, these consumers will not be adequately protected.

Use of Competition Law

In the absence of price controls, Ofgem intends to use the Competition Act 1998 to regulate the behaviour of energy suppliers.

Firstly, Ofgem cannot have recourse to the Competition Act until it has defined the relative markets – something which it has thus far failed to do. It is **difficult** to understand how Ofgem can conclude that the energy supply market is working when it has yet to define the market.

A handwritten signature, possibly 'J. Smith', written in black ink.



In addition, the cost and duration of investigations under competition law are usually prohibitive, and will lead to **Ofgem** only taking up cases of large-scale anti-competitive practices. Technical, marginal or difficult cases are likely to go unchallenged.

Summary

I feel that **Ofgem** has failed to provide **credible** evidence of the existence of a properly functioning energy supply market, and in the absence of such evidence, it is irrational and irresponsible to remove price controls which provide some measure of protection for the “fuel poor”.

In Scotland, there is clear evidence that there is no meaningful marketplace due to structural problems in the wholesale market, debt blocking, teleswitching, and brand inertia. There is evidence that, even with current price controls, the disadvantaged do not represent attractive target customers for new suppliers, and do not benefit to the same extent as standard tariff customers.

In the absence of a properly functioning market, price controls remain the only effective means of providing protection to the significant numbers of households in Scotland which suffer **fuel** poverty.

Ofgem has acted with indecent haste in its headlong rush to deregulate the market – a move which will benefit the shareholders of energy supply companies to the detriment of those in fuel poverty. I also feel that **Ofgem** has shown arrogance in the **offhand** nature of its response to the concerns raised by numerous consumer groups during the consultation phase – your press release of 29 January 2002 “Competition in Gas and Electricity supply – separating fact from fiction” was an ill-advised attack on legitimate concerns raised by legitimate representative bodies, including Parliament itself.

I would therefore urge **Ofgem** to reconsider its final proposals to **lift** all price controls from 1 April 2002. I would ask you to get together with energywatch and other relevant parties, to arrive at an agreed set of criteria for measuring the development of the market, and set out a detailed timetable for the solving of issues which prevent the formation and development of a competitive marketplace – debt blocking, teleswitching, BETTA etc. Only once these issues are solved will there be any basis for claiming that a fair market is in place and that there is any rationale in lifting price controls

However, if **Ofgem** is intent on pressing ahead with its proposal, I would like clarification of the following:

- How does **Ofgem** intend to monitor the development of competition in the PPM market?
- Please provide a detailed list of the criteria which **Ofgem** will use to protect consumers under the Competition Act
- A date by when “debt-blocking” will be removed, specifically in the gas PPM market, to allow competition to work to the benefit of the “fuel poor”.



I will of course be happy to meet you to discuss my concerns **further**.

Yours sincerely,

Ann McKechin

Ann McKechin, MP

cc. Brian Wilson MP, Minister for Industry & Energy, DTI