

Innogy plc

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

Dear Iain,

Review of domestic gas and electricity competition and supply price regulation: Conclusions and final proposals

Innogy welcomes the opportunity to comment upon **Ofgem's** document and the conclusions it draws on the effectiveness of competition and the decision to remove formal price control regulation.

The purpose of this response is to therefore reaffirm the support originally given to **Ofgem's** initial proposals, now firmed up within the February document. The removal of formal price regulation, whether via an actual or relative price control, strikes an appropriate balance between taking regulatory action to protect the interests of consumers, particularly the vulnerable, and not frustrating innovation and the provision of further choice to all customers.

As an example **Ofgem's** document confirms that prepayment meter customers are gaining access to competitive offers in equal measure to other customer groups and payment methods, and as such price regulation of any form ran the risk of distorting the benefits delivered by competition. In addition energy suppliers are actively responding to the needs of more vulnerable customer groups. The most recent examples being the national roll out of a scheme by Innogy's retail arm (npower) targeting grant aid to people living in fuel poverty, without direct regulatory intervention and npower's sponsorship of research into how to end fuel poverty and financial exclusion.

The final proposal to remove formal price regulation for ex-PES electricity suppliers and British Gas Trading accurately reflects **Ofgem's** duty to protect the interests of consumers wherever appropriate by promoting competition, and represents a further commitment to remove regulation when it is no longer required. **Ofgem** provided clear evidence in its review of the energy market of the scope, access to and effectiveness of competition across the complete range of customer groups. It is appropriate therefore in this context that going forward **Ofgem** rely on competition and consumer law, as well as complementary sections of the licence regime, to address issues that arise.

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Innogy concurs with **Ofgem's** conclusion that whilst some inequities still exist within the competitive market, they will be more properly addressed by other regulatory means than direct price regulation. A prime example is the rate of progress of competition in Scotland for specific customer groups, and **Ofgem's** avowed intention to take forward the issues of unmetered supplies and teleswitching. It is important that **Ofgem** remain vigilant in such areas and take appropriate and proportionate action to redress any such imbalances in the market.

Overall Innogy firmly believe the final proposals put forward by **Ofgem**, when allied to the changes brought about by the Utilities Act 2000, create a more responsive and flexible regulatory regime. It is more responsive and focused on the needs and issues facing customers, as and when they arise, particularly in a social context. In addition it is more flexible from **Ofgem's** own perspective in terms of the powers at its disposal under the licence regime, consumer law and their concurrent powers under the Competition Act, to address confirmed misdemeanours.

We now look forward to the formal implementation of **Ofgem's** final proposals. This will centre on the removal of all the related special conditions in our relevant electricity supply **licences**; the removal of the two prescribed electricity standards of performance for ex-PES suppliers and the removal of those licence conditions relating to the provision of regulatory accounts.

A **disapplication** request in respect of the special licence conditions, relating to the restraints on supply charges, has already been provided to you and we look forward to your response in the near future.

Yours sincerely,

Alan Hannaway
Economic Regulation

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