



**CHEMICAL INDUSTRIES**  
ASSOCIATION

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Dear Rachel,

**Non-domestic supply market review: consultation**

CIA welcomes the non-domestic supply market review and would like to provide the following high-level comments under each of the issues raised.

**1. Parallel movements in the prices offered by suppliers or other evidence of collusion;**

Members commented that the majority of suppliers offer the same products i.e. spot or fixed based on forward market. This isn't evidence necessarily of collusion but it proves there is de facto no real competition. Members reported that tender exercises for gas and electricity for flexible products resulted in the same basic structure of the offers and the only variable around which to negotiate was the administrative charge. One member commented, "We have never found a supplier who is prepared to do anything outside the NBP market structure."

**2. Sustained increases in retail margins;**

One member noted that retail margins have moved up, but it was noted that they remain extremely low since suppliers make money upstream and not downstream. It was reported that margins now requested by suppliers have increased considerably, however, most members believed that the review should not focus on retail margins.

**3. Predatory pricing in the supply market;**

Members commented about how they would like to see predatory pricing, however, none has been seen, and hence our worries about no real competition. It was mentioned that customers felt that no-one will step out of line.

**4. Barriers to entry, or barriers to expansion, for supply companies;**

It was reported that credit risk effectively discourages entrepreneurial entry into the market. Many members also raised the issue that there has been no sign of any supplier wanting to disturb the status quo.

**5. Impediments to customers' switching supplier;**

Members noted that the main impediment to switching supplier is credit. Suppliers are setting extremely high credit checks before taking on new customers so customers tend to feel it easier to stay put. Members are concerned about credit risk and the attitude and ability of suppliers to walk away from future or existing business if the Supplier doesn't like a company's financial performance. It was also raised that potentially it could be seen that companies may be unable to obtain supplies because of suppliers' extreme focus on risk avoidance.



CIA members are committed to Responsible Care

It was raised that switching also causes problems because it can restrict and/or complicate forward purchases. Having an ongoing supply relationship is important so that you can make purchasing decisions when you want to – that is the value of timing flexibility is more important than trying to save t on the admin fee.

**6. Poor information to customers on prices or services, or other evidence of restrictions on the ability of buyers, or their representatives, to engage fully with the commercial opportunities that the market should present;**

Many members commented on this issue and generally the service offered by suppliers is pretty limited. There a couple of exceptions but suppliers often offer a similar basic package.

**7. Low rate of innovation (compared to previous performance and/or performance in other geographic or sector markets);**

Members agreed that there was a low rate of innovation, one member stated that it took three years to find anyone in the electricity marketplace who would be prepared to offer us a flexible contract. This situated was also reported for the gas market. However, it was noted that a few companies were trying to introduce innovation but it wasn't across the board.

**8. Low degree of product differentiation (compared to previous performance and/or performance in other geographic or sector markets); and**

It was raised that members do not change supplier as most products being offered are very similar and there is little time to be able to compare products with tenders closing out in a number of hours.

**9. Poor quality of service (compared to previous performance and/or performance in other geographic or sector markets).**

Member commented that they have to live with the service received, however, in general it is acceptable. It was reported that quality of service ranged from being good but could also be quite poor. It was raised that an area where there is product differentiation is invoicing where accuracy and timeliness can vary significantly.

**If you do consider a review is necessary, please answer the following questions:**

**1. Which indicators of competitiveness should be the focus of this review (for example, market dominance of particular company(ies), quality of service, barriers to entry for suppliers), and why;**

With regard to the Supply Market Review, it should be supported although it is important that there is no dilution of effort on wholesale markets. Another member stated that they would support the Supply Market Review, especially in view of market concentration. Furthermore, it was also raised that liquidity is an issue, for example, one of our members tried to book some electricity for Q4 2006 and found it very difficult.

With respect to market concentration, it was raised that the review could focus on the reduced number of suppliers who were prepared to bid; how about assessing the number of bidders and decliners in tender exercises? We suspect this is because suppliers are only prepared to supply within limited niches. Any assessment should be of the offers (for similar products) and their real financial impact.

**2. Should the review cover all market segments (for example SMEs, medium and large gas and electricity supply markets) or focus upon a particular sub-set of these, and why;**

Members support a review that should cover only customers who are sufficiently big that prices are not a tariff. The main question to answer is whether the retail market is delivering competition for industrial consumers or not.

Members felt that the review needs to be comprehensive because there are different issues in different sectors for both gas and electricity activities.

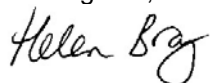
It was raised that Ofgem may not be the correct organisation to conduct this review. There is support for an independent body to carry out the work , potentially the Competition Commission.

**3. If you do not consider a review is necessary, are there other measures Ofgem should be taking to improve the way the supply market is working? What are these measures and why are they required?**

CIA members do support the review. Furthermore, our members support Ofgem's work in relation to market surveillance, for example, the North Sea, European gas flows, isle of grain and the interconnector.

Sorry for the rather rushed response, I hope this helps to give a flavour of our members' points of view.

Kind regards,

A handwritten signature in black ink, appearing to read 'Helen Bray'.

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