24 January 2005

Rachel Fletcher
Consumer Markets
Ofgem
9 Millbank
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Dear Rachel

Non-domestic supply market review

The Scottish Council for Development and Industry (SCDI) welcomes the opportunity to comment on this consultation. SCDI is an independent membership network, which strengthens Scotland's competitiveness by influencing Government policies to encourage sustainable economic prosperity. Its membership includes businesses, trades unions, local authorities, educational institutions, and the voluntary sector.

SCDI has had a strong interest in energy matters for many years and has offered its advice regularly to the Scottish Executive, the Scottish Parliament and UK Government on a wide range of topics. Most recently, we wrote to Charles Gallacher, in July 2005, outlining the concerns of our members with regard to the significant increases in their energy bills.

SCDI notes that Ofgem's last review of competition in the non-domestic gas and electricity supply sectors, July 2003, concluded that the supply markets were broadly competitive and did not require further review. We are also aware that, since then, there have been developments as the markets mature: from the increase in products for more flexible energy management, to the increased use of third party intermediaries, as well as more customers switching supplier.

However, while SCDI recognises that the introduction of competition to the UK energy market has provided lower energy prices in the past; we are concerned about energy price inflation which continues to wipe out profits in increasingly cost-sensitive industries. Year-on-year increases in gas and electricity prices of over 50%

have hit Scottish businesses hard, particularly those in the energy intensive manufacturing sector.

SCDI accepts that a range of external factors impact on wholesale energy prices, such as high oil prices, the UK's increased reliance on primary energy needs from imports, and the impact of green regulation. We note that the majority countries across Europe have been affected by rising energy costs; however, UK industries have been hit particularly hard. Large industrial users in the UK have faced some of the highest energy prices in Europe with electricity prices 50% higher than in France and Germany and gas prices three to four times higher than in the Netherlands.

We wish to be confident that the UK supply markets are functioning as transparently as possible, promoting effective supply, and not adding to this price pressure. However, this is not easily satisfied in complex and concentrated markets. Indeed, research published by the consumer watchdog, energywatch, and carried out by Cornwall Energy Associates in 2004 indicated, "Some serious obstacles to a competitive market for business consumers." Information asymmetries and restrictions on supply and choice, together with persistent regulatory change and volatile pricing in the wholesale energy markets, were just some of the main findings that highlighted questions about certain aspects of competition. SCDI trusts that Ofgem will continue to work closely with and support energywatch activities in this area, making sure these issues are effectively and expediently addressed.

Finally, we await the findings of the European Commission's inquiry into competition in the gas and electricity markets and we will be interested in the final analysis, particularly regarding any views or implications for the UK markets. We note that Ofgem are working with the Commission and trust the findings of the inquiry will be quickly digested and acted upon.

Yours sincerely

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