



The Office of Gas & Electricity Markets

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Dear Colleague

Non-domestic Market Consultation – Way Forward

During November 2005, Ofgem consulted on whether to conduct a review of the non-domestic supply market. We set out the recent developments in the non-domestic supply market and the current initiatives aimed at monitoring and improving the market. Our consultation letter also specified the evidence we would require to justify undertaking a review of the market and the particular questions we sought to answer through the consultation exercise. Stakeholders were invited to provide specific evidence that a further review is necessary.

This consultation closed in the middle of January 2006. In total we received 28 responses, which are available on our web-site¹, subject to confidentiality requests. We would like to thank all of you who submitted responses on this important matter.

Summary of responses

Half of the responses we received were from small users, consultants and brokers. These three groups focused on the difficulties that small and medium enterprises (SMEs) and public sector buyers face in participating in the market. Difficulties mentioned include: a reduced level of supplier interest in obtaining and retaining these customers; problems in the transfer process; metering issues; a lack of customer expertise and poor market information combined with increased complexity of contracts and market arrangements; and concerns around the practices of some energy brokers. We received four responses from large energy users. These respondents highlighted concerns about the lack of offers to supply and the short period that these offers are kept open.

All respondents, apart from the 'Big 6' suppliers (E.ON, EDF, Scottish Power, Scottish and Southern, British Gas and npower), expressed concern at declining liquidity in the wholesale market and the impact that this has upon competition in the non-domestic retail market. As a result, many respondents have requested a review of the wholesale market as well as the non-domestic retail market.

The Big 6 suppliers point to a range of developments, including an increase in energy products, a rise in the use of brokers and an increase in customer satisfaction, which they

¹ <http://www.ofgem.gov.uk/ofgem/work/index.jsp?section=/areasofwork/retailcompetition>

believe are indicative of an actively competitive market. They are also largely of the view that it is inappropriate for Ofgem to conduct a market inquiry while the EU investigation is ongoing. These companies and three of the four independent suppliers are concerned about the regulatory burden that might arise from a market review, particularly if it encompassed the wholesale market as well as the non-domestic retail market.

Our assessment of the case for a non-domestic market review

Ofgem acknowledges that many non-domestic customers are facing genuine difficulties in participating in the market during this period of unprecedented wholesale price rises and volatility. It is not yet clear however, that the issues raised through the consultation indicate a failure of the retail market – nor is it clear that a retail market review is an appropriate or proportionate response to these issues. Against this background, it appears more relevant for Ofgem to assist customers to improve their market understanding and participation in these difficult times than to engage in a drawn out market review that will not directly deliver benefits for customers. As a result we propose to commence a set of initiatives aimed at tackling directly the key difficulties customers are facing.

We see this as an initial step and we have not ruled out the possibility that a full market review may ultimately be required to get to the root of the concerns raised through the consultation exercise.

Ofgem initiatives

To begin addressing the problems expressed by SME and public sector buyers, we propose to work with these customer groups to crystallise and quantify their key concerns. We aim to bring brokers and analysts to the table to assist customers to back up their case.

Once customers have clearly identified their concerns and collated the relevant evidence, we will work with them to map out the best way forward. In some cases, customers may be able to work together to address the problems they face - for example, in commissioning research on customer satisfaction across suppliers, disseminating information about setting up buying groups, or sharing the cost of commissioning price comparison services. Beyond these customer driven initiatives, we expect that we will need to set up a series of focussed customer/supplier meetings, to highlight to suppliers the needs of SME and public sector users and to press suppliers to respond to these needs where reasonable. It may also be appropriate for us to run a road-show to inform and empower SME and public sector consumers as they participate in the retail market – much like the seminars that Ofgem has conducted to assist wholesale demand side participation this winter.

It would appear that many of the concerns specific to larger customers are a direct result of developments in the wholesale market. To address the issues of this group we propose a parallel initiative. We first need to explore more deeply the role Ofgem can play in assisting larger customers to overcome their specific retail market concerns. As part of this exercise we will need to ascertain the issues that are not being addressed, either directly or indirectly, by existing Ofgem seminars, the on-going wholesale market monitoring and the current EU energy market investigation.

It may not be possible to solve all non-domestic retail market concerns through the targeted initiatives noted above. Some issues, such as concerns about the quality of data and customer ownership of data, may need to be taken up through industry working groups that are already in place. Where this is the case, and where there is clearly documented evidence of the scale and nature of the problem, we will take appropriate steps to address the problem. We also recognise that Ofgem may have an on-going role to play for example in expanding our monitoring of the non-domestic market and undertaking research on specific aspects of that market.

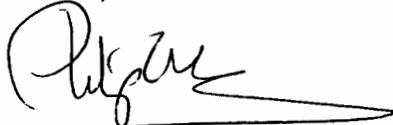
Next steps

We have received support for the proposed SME and public sector customer initiative from both the SMUG (small users group) and energywatch. We therefore aim to launch this initiative by holding a focus work group with SMUG members, energywatch and industry analysts in the last week of March. Any other customer representative who would like to attend this work group, or be kept informed of developments in the initiative should contact Rachel Fletcher (rachel.fletcher@ofgem.gov.uk).

We will hold meetings with large customers over the next couple of weeks to establish the best way forward on their concerns and we will discuss our proposed approach with the LUG (large users group) at its next meeting on 27 March.

Further enquiries on this subject can be directed to Rachel Fletcher on the email address above.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Philip Davies', with a long horizontal flourish extending to the right.

Philip Davies
Director, Retail Markets and Environmental Policy