



Mr S Smith  
Managing Director  
Ofgem  
9 Millbank  
London  
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May 2007

Dear Mr Smith

### **Use of Objection in I&C Market**

Corona Energy ("Corona") welcomes the opportunity to respond to Ofgem's letter of 17 April 2007 regarding the use of objection in I&C energy markets. Corona is active in the I&C gas market and has experienced issues with objections surrounding customer transfers.

Corona recognises that Ofgem's primary duty is protecting the interests of customers by securing effective competition wherever possible. We are of the view that the behaviour of BGT in the electricity market acted against the interests of customers and therefore believe that Ofgem should alter the arrangements for objections in the I&C energy markets as a matter of urgency.

Corona understands that BGT's behaviour under the MRA has been condemned by the majority of the energy supply industry and was believed likely to be detrimental to customers both in the short term and longer term. Corona believes that it is possible that such marketing actions could also be undertaken in the gas market and without a change to the energy suppliers' licence obligations customers will see reduced competitive pressure and the potential for rising prices.

### **Customer Protection**

The right to object has been used historically to maintain market share in the UK resulting in bad press for the market and fines from Ofgem for some. Ofgem have played an important role in bringing a stop to such behaviour and the reputation of the market has improved. It is vital to longer term market development that any behaviour limiting customer choice is preventing.

Corona believes that customers' interests will not be best served by allowing an outgoing supplier the opportunity to pressurise customers. The incumbent supplier gains knowledge of the incoming supplier in an unusual way in competitive markets. If a customer is seeking a better deal from his incumbent supplier we believe he is likely to contact that supplier prior to requesting a contract from a new supplier.

The opportunity to undertake last minute marketing, such as that undertaken by BGT, will undermine the operation of the competitive market for a number of reasons:

- Suppliers will no longer be incentivised to price close to the market except to those customers who are trying to switch suppliers.
- Sales teams will become focussed on short term price negotiations, with pressured sales.
- Prices to customers will rise as the risk of non-transfer will increase supplier costs and marketing costs per customer.
- Contracts will change to introduce clauses to cover the risks to the suppliers of a non-switch.

### **Supplier Competition**

Those energy suppliers in a position to gain from the post transfer notification marketing are currently only those who have large marketing teams and falling market share. To undertake last minute, high pressure sales, would in most companies withdraw resource from normal marketing activity. Corona therefore feels the behaviour is beneficial to dominant incumbents and not smaller players. Smaller players do not have the resources to call all switching customers to try and retain them. The inability of suppliers to compete on a level playing field will remove competitive pressures from the larger suppliers, ultimately to the detriment of customers.

The change in marketing activity we believe will also drive up supplier costs and thus customer prices. Companies would look to increase direct communication with customers, with associated resource costs. Increasing the costs of securing customers will also create barriers to entry, further reducing competitive pressures.

### **Energy Prices**

Prices to end users could also be driven up by the use of this post transfer notification marketing. The incoming supplier will not be able to lock in gas for a customer at the time the contract was signed without risking taking a long position. If he does lock in gas he may want a termination clause to cover a potential loss in selling back gas if the customer does not then switch. However, if he decides that it is cheaper, or less risky, to lock in gas at the time a transfer completes, the supplier is likely to price in a premium to cover the potential of prices to rise in the period between signature of a supply contract and the actual

transfer. Ultimately customers will lose out from higher prices needed to cover increasing risks.

Ofgem should note that it is likely that the larger suppliers can carry this sort of volume risk, but for a small supplier in a rising market this risk is significant and material.

### **Selling Tactics**

Corona is concerned that the tactics employed by BGT risk bringing the market into disrepute. It is likely that the last minute nature of the sales will see marketing staff employ heavy handed tactics. It may also be possible that the incumbent may talk the customer into switching without being aware that the new contract has a termination clause, thus misleading the customer into believing that switching back is zero cost.

Sales staff will also, under the BGT marketing activities, be basing their whole sales pitch on price. We have found that the recent systems problems some suppliers have had has shifted the focus of customers from price to service. Corona believes that the best deal for customers should be based around both price and service and it would therefore be unhelpful to allow suppliers to go back to the customer with excuses about systems problems that may have driven their desire to switch. Customers should be able to choose their supplier, but would be better served by suppliers offering them the best deal and price when they go to the market not after they have decided to switch.

### **Regulation**

Corona believes that the behaviour of BGT will undermine competition in the energy markets. It is therefore important that Ofgem tries to resolve this issue as quickly and robustly as possible. We therefore believe that Ofgem should propose a change to the supply licences, using the collective licence modification (CLM) process.

Yours sincerely

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

Mark Pearce  
Operations Manager