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Copy: Bergen Energi UK, Leeds

BERGEN, 2008-12-01

Energy supply probe – Feedback

Dear Sir,

We hereby send you Bergen Energi's (hereinafter BE) reply to your Initial Findings Report published 6th October 2008. We are pleased to see the initiative for the Call for Evidence, inviting market participants to give their opinion on the functioning of the market, and the publication of this report.

BE participated as a stakeholder in the Probe, and included our comments in a letter to Ofgem the 30th April 2008. The comments and feedback are still highly relevant, and we would like to repeat our support for the investigation performed. The letter is enclosed hereto.

1. The overall process, which was adopted for this consultation?

As already mentioned, BE found the initiative of executing this report as a very positive one, and saw it as a great opportunity to comment on our experiences with the UK energy market. We would however like to express the need for an more into depth inquiry in the retail market as such, and not only an investigation focused on the end-user market.

2. Any comments about the overall tone and content of the report?

The tone and content of the report seem professional, yet easy to digest.

3. Was the report easy to read/ understand, could it have been better written?

To us, the report seems simple, but not unprofessional. The use of points and conclusions as you go along also make the report easy to follow. The length of the report could however lead to a dislike for some stakeholders to read and evaluate the report and its finding. In that regard the summary was helpful.

4. To what extent did the report's conclusions provide a balanced view?

The report seems thorough and unbiased, but the input of the big participants in the market is still present and evident. The UK energy market is lacking one common representative for the end-users, and the lobbyist is not as strongly present in the market as of today but nevertheless present to a certain extent. In a market situation like this, where the end-users are in need of protection, and where the end-users are those paying the bill in the long run, it is very important that the government protect the end-users and not the lobbyists.

5. The report's reasoned recommendations for improvement?

As you will see under question number 6, we are left with some questions on what kind of improvements Ofgem see as possible to achieve, and how you would like to approach the main issues you raise. We do understand that the report is meant to give the target audience the opportunity to suggest possible solutions to the issues the report raise, but we still would appreciate more concrete alternatives considered by Ofgem.

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6. Further comments.

First of all, we agree on your opinion in point 6.15 that more and better information is needed for customers to decide if they want to change supplier. This is a positive initiative, since an increase of information hopefully will lead to an increase in switching supplier and some pressure for competition on the Big 6.

In point 6.16, it is stated; "The pricing policies of the Big 6 may serve, therefore, as a form of barrier to efficient entry to the market as prices and margins are low in the most active part of the market and acquisition costs are high in other parts." And in the Overview it is followed by; "Subject to consultation, we will seek agreement with suppliers on the proposed reforms. If agreement is not forthcoming we will consider making a market investigation reference to the Competition Commission.", and on page 6; "We intend to take action to facilitate efficient entry and so strengthen competitive pressure on the Big 6 suppliers." To our understanding, it seems that you want to seek agreement with the suppliers before you make a reference to the Competition Commission. We do agree that an agreement of changing anti-competitive pricing policies is favourable for both parties. But we still have to wonder if this strategy would take too much time, enabling the Big 6 to keep the prices of the market higher than necessary? If Ofgem is aware of them having a pricing policy that act as a barrier to entry for new entrants, and thus creating a non-efficient market, why not making the reference to the Commission as a priority?

The grid tariffs in UK is complex with its variable STOD's and regional peak hours differing, resulting in difficulties for customers to compare suppliers and choose to switch supplier. These problems are mentioned by BE at several occasions, moreover in the letter referred to above. Less complexity and fewer tariffs would increase competition in the market and the knowledge of the end-users. This should be an achievable goal, by an easy remedy to Ofgem, and we hope to see a solution of this problem within short.

Vertical integration of the Big 6 is discussed as an efficiency strain. This is an issue also greatly of our concern, as we already made clear in our letter of 30th April. Vertical integration is known as one of the big issues concerning competition in the market. Recently, the EC made a statement about the German TSO Eon, who because of their vertical integration acted as a constraint on competition. To our understanding, this kind of integration would lead to negative results in the British market as well; therefore we feel that it is important to stress this issue. Does Ofgem have an agenda on breaking up these companies, or is agreement also the priority on this issue?

We look forward to the improvements in the market following this report, and please do not hesitate to contact us in case of further questions or required feedback.

Sincerely
BERGEN ENERGI AS



Camilla Meland
Legal adviser



Hilde Kjelstrup
Legal Trainee

Enclosure
Letter to Ofgem 30.04.08