

Neil Barnes  
Ofgem  
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25<sup>th</sup> November 2008

Dear Mr Barnes

### **Energy Supply Probe – Response from Haven Power**

We are writing in response to your initial findings report on the Energy Supply Probe. In general we welcome your report and its observations that competition in the energy supply market is not fully effective. As a new entrant to the electricity market we have encountered significant barriers to both entry and growth.

We welcome this opportunity to comment on your proposals. Our comments are addressed to the proposed reforms identified in the report.

### **Action 1: Promoting more active customer engagement**

#### *Clearer information on customer bills*

The tariff is normally on the bill as part of the bill calculation. We see little if any value in printing it more explicitly. Bills are complex and long enough in any case without duplicating information.

Adding the annual consumption might well be useful for customers but would require care over consumption data, particularly in electricity. The most reliable indicator is probably the estimated annual consumption value (EAC), a settlement parameter calculated independently of the supplier by the data collector, and whilst fluctuations in its value is “smoothed” it is never-the-less subject to considerable variation especially following change of supplier. Such variations, including occasionally negative values, could be confusing for customers as they try and reconcile such information with the invoice. Suppliers have little or no other information on which any annual estimate could be based during the first year of supply. We would support a requirement to include this information where the supplier has a reasonable view but not an absolute requirement for the reasons set out above.

#### *Annual statements*

We are concerned that the thrust of this proposal will have the effect of reducing everything to price. This would tend to inhibit suppliers trying to develop new brands and building propositions which are more than simply price. We can understand the appeal from a pure economics point of view but we need to recognise that price is only one component of the marketing mix.

In addition, for customers on fixed price fixed period contracts much of the proposed information would not be relevant.

As a consequence we do not support this proposal.

#### *Annual prompt*

Our contracts are generally fixed length, 1, 2 and 3 years and we routinely communicate with our customers as the renewal time approaches. A requirement on a supplier to prompt the customer annually in such circumstances would clearly be confusing in such situations as the customers contracts are frequently longer than one year.

Ofgem's own research shows that the vast majority of customers are aware about how to switch and have preferred payment methods. We do not believe that it is the supplier's role to prompt further switching (which increases costs generally) nor to try to anticipate all of the customers circumstances as they relate to payment methods.

Your proposals once again are set out purely from a price perspective and neglect the other important non price factors in customer decisions. We cannot think of any other business that is required to promote switching in this way. As a result we do not support this proposal.

#### *Price Comparison Sites*

We believe that measures need to be put in place to actively review the performance of price comparison sites following the demise of the energywatch accreditation scheme. Any promotion of price comparison sites can only be useful if such sites meet a minimum level of performance. The potential for wrong and misleading information is high.

In the medium term it consideration should be given to expanding the information held on ECOES (see below) and this could be made available (with the customer's consent) to price comparison sites to allow them to produce better estimates of costs. Similar arrangements could also be made for gas.

Ofgem could also consider running a definitive price comparison site free from other advertising and commissions.

Access to price comparison services for vulnerable and low income customers without internet facilities would probably be better provided through third parties such as the CAB and debt advisory services. Perhaps this is something that the regulatory bodies could take on in conjunction with domestic suppliers.

#### *Improving the switching process*

We would welcome further developments in this area. In particular we would like to see meter reading data added to the ECOES function for electricity. ECOES already holds some information about the metering system. Extending the range of data to include the most recent meter reading and the current estimated annual consumption (EAC) would greatly assist the switching process by providing greater transparency in determination of the opening meter reading. This suggestion could

be achieved by the data collectors submitting data directly to ECOES, as meter operators do now, containing meter reading information (D0010) and consumption details (D0019). These changes could be made quickly and cheaply.

#### *Debt Blocking*

We believe that the current arrangements around debt blocking are in the interests of customers as a whole. As suppliers have an obligation to supply domestic customers we believe that this is part of the essential protection for suppliers. It also helps to keep costs down for customers as a whole, particularly those who use on demand payment, by making it much more difficult for such minded customers to leave a trail of bad debt across a number of suppliers.

Although there is no obligation to supply in the business market we believe that suppliers should retain the right to block transfers for debt. This helps to keep costs down generally and is good for customers. In practice suppliers are likely to share information on debtors if debt blocking is removed (following the necessary contractual changes) and this is likely to have a similar effect in the business market where there is no obligation to supply. In the domestic market it could lead to much greater use of security deposits and prepayment meters which would be undesirable.

#### *Customer awareness campaigns*

We would support activity aimed at improving the awareness of small business customers to the benefits of switching supplier. The costs of raising awareness must however be lower than the benefits that actually accrue and careful monitoring would be required to ensure this. We would not support the introduction of a requirement on suppliers for them to do raise awareness as this could constrain their marketing activity.

### **Action 2: Helping customers make well-informed choices**

#### *Easy to understand price metric*

We would not support the adoption of such a price metric. We believe that this would constrain suppliers' ability to develop the non price aspects of their offerings. In practice this would be a continuously moving issue and there would be a serious risk that price metrics would quickly become out dated during times when suppliers are changing prices. Although such schemes have been used successfully in other markets (e.g. energy efficiency labelling) they have been against a static background and not one in which the basis for comparison is continually changing.

#### *Sales and marketing activities*

We would be concerned if increasing obligations are applied to the selling process. It is important for suppliers to be efficient and effective in their sales activities and suggestions such as always having to provide a written quotation would significantly impact on the cost effectiveness and practicality of certain sales channels such as telephone sales.

There are already licence conditions covering marketing to domestic customers and these provide a strong background to the deployment of ethical sales techniques.

The vast majority of business customers are capable and aware and do not enter contracts without understanding them. We would not therefore support the proposals in this area.

### **Action 3: Reducing barriers to entry and expansion**

#### *Review regulatory obligations*

We would welcome further measures in this area. The current market entry procedures are complex, costly and very time-consuming. Security credit requirements, for distribution, transmission and energy balancing remain onerous and represent a substantial burden on working capital particularly as a new entrant attempts to grow the number the customers supplied.

The market power of the big 6 suppliers is very great and still growing. We believe that the big 6 suppliers should be required to offer market entry services to new entrants by providing, for example, power to new entrants on no less favourable a basis than they provide the same quantities of power to their larger industrial customers.

We also believe that the practice of the larger integrated suppliers withdrawing metering services should be stopped and reversed. This has great potential to damage supply competition in the future.

#### *Require the Big 6 suppliers to publish separate regulatory accounts*

We support a return to the requirement for the ex-monopoly suppliers to publish accounts to a prescribed content and format. This could greatly improve transparency especially in the treatment of wholesale costs within vertically integrated businesses.

A further step would be to require the inclusion of a comprehensive and detailed description of the arrangements for transfer pricing of power between supply businesses and the other parts of these integrated companies. This would help to provide transparency in this area which is a major barrier to entry to supply.

#### *Wholesale market liquidity*

We support this investigation and agree that it is urgent. We are disappointed that Ofgem has not made more progress given the acknowledgement of this issue to the Select Committee in June. This work needs to cover liquidity in both the prompt market and further out for at least 3 years along the forward curve and should take into account the reduced liquidity seen by smaller players with limited credit capacities (who cannot access the majority of counterparties).

#### *Additional powers to guard against potential market abuses*

We welcome this suggestion and agree that Ofgem should have more powers in this area. We believe that the ability to compel generators to sell their output transparently through the wholesale market would be most useful.

## **Action 4: Helping small business customers**

### *Terms and conditions*

Terms and conditions, especially in relation to future switching and the end of contract arrangements must be clear. We believe that suppliers should communicate this clearly to customers as part of their welcome processes.

### *Objections*

The existing rules are widely flouted to the detriment of business customers. We regularly observe;

- Suppliers objecting without sound reason. When we attempt to challenge we are met with either a blank refusal to discuss or it is explained as a wrong interpretation of contract end dates or other "training" issues
- Abuse of the switching process in order to retain customers. This is where the existing supplier offers a counter bid on receipt of the loss notification, and then raises an objection to retain the customer. Meanwhile the new supplier has commenced to service the contract he entered into with the customer, including the purchase of wholesale energy. We believe this is a gross abuse of the competitive arrangements and should be banned immediately
- Inadequate arrangements to inform the customer that the supplier has objected and provide the reasons. Invariably we, as prospective new supplier, will inform the customer before the existing supplier does so. Often suppliers simply write to customers, using second class post, and the customer does not receive this information until after the close of the objection resolution window, by which time the change of supplier process has already failed.
- Refusal of the major suppliers to remove the objection even though they admit the objection was made in error or the cause has been resolved. The major suppliers appear to operate under a tacit arrangement to require the new supplier to recommence the entire registration process rather than the existing supplier lift the objection, as required under the Master Registration Agreement. This inconveniences customers and delays the access to the benefits arising from the new contract. It also considerably increases the costs to serve of the acquiring supplier and ties up limited resources which would be better deployed on new productive work.

A code of practice is required that addresses the above points and requires that effective arrangements are made for suppliers to provide auditable evidence of compliance. We would be happy to volunteer to assist in the development of this code of practice.

### *Accreditation Scheme for Switching Sites*

There are relatively few switching sites for business customers and many suppliers do not offer online quotes in the business market. This means that it is much more difficult for switching sites to represent the range of offers available from suppliers. We believe that it would be difficult to devise a practical accreditation scheme as based on current behaviours significant numbers of suppliers would not participate and the comparisons offered by such sites could not confidently represent what was available in the market place.

We would support the production of general guidance by Ofgem on the use of such sites.

*Code of practice for third party intermediaries*

We think this would be helpful if it were to improve transparency of charging and services provided by TPIs. Ofgem may also wish to consider the creation of an approval scheme for TPIs based on transparency and services provided to customers.

**Action 5: Addressing concerns over unfair price differentials**

In general we feel the proposals in this section are over-prescriptive and would significantly impair suppliers' ability to design and introduce innovative products. They would be a backwards step away from the competitive market. We do not support either proposal.

We believe that Ofgem should recognise that price variations are part of normally functioning markets. We believe that the price variations seen in electricity and gas are less than those in most comparable markets.

I hope you find our comments useful and we would be am happy to discuss any of these points further with you if that would be helpful.

Yours sincerely

Peter Bennell  
Chief Executive  
Haven Power Ltd