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Office of Gas and Electricity Markets
9 Millbank
London
SW1P 3GE

28 November 2008

Energy Supply Probe – Response to Initial Findings

Dear Sir/Madam

The Scottish Government wishes to make a response as part of the consultation on the initial findings of the Ofgem inquiry into energy retail markets.

Scottish Government Ministers have made clear on a number of occasions our concern over the rise in retail energy prices that have occurred in recent months. At such a time, it is important that the regulator uses its powers to investigate if the market is working effectively. We welcome the fact that this investigation is taking place and wish to make the following points:

While we accept the overall conclusion that there is no evidence of cartel like behaviour amongst the large energy supply companies, we are obviously concerned about the report's conclusion that some customers have not benefited from a competitive market situation and that they may be facing some form of unfair or uncompetitive prices differentials. This is particularly the case for those paying by standard credit or pre-payment meter; for those incumbent customers who have apparently been subject to a premium from their previous monopoly provider and for those who are off-gas grid and, as they cannot benefit from dual-fuel prices, appear to pay higher electricity prices. As Scotland has a lower level of customers who have switched suppliers, especially in the electricity market and that we know a significant proportion of off-grid customers and those on pre-payment meters tend to be fuel poor, these findings are of particular concern.

In terms of the proposed remedies outlined by Ofgem, we welcome the broad thrust of the initial set of recommendations for action. In particular we would endorse the proposal to consider placing a further new condition as part of the licences for the major supply companies to impose a prohibition on undue price discrimination and ensure that any price differentials are objectively justified by cost differences. Greater overall clarity in terms of the cost justification for different tariffs is something that should be considered.

As part of that process, we would support the proposal to provide customers with a clearer level of bill information, including the proposal of an annual statement to each customer on the tariff they are currently paying and the outlining of possible alternatives, to make comparisons simpler. We would suggest that proposals such as these be considered as part

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of a wider focus upon ensuring that the process of switching suppliers is made as easy as possible, both in terms of the transparency of the information made available to customers and also responsibilities upon energy supply firms to ensure that the process takes place quickly and effectively so that switching suppliers is not seen as an arduous undertaking.

We would also support the proposal to consider the development of an easier to understand price metric to enable consumers to compare prices more quickly and easily. As part of this we would suggest that consideration be given to the development of a standard price metric, such as pence per kilowatt hour to allow comparisons across tariffs to be made easier. Such a metric would be broadly comparable with the standard unit price approach that many supermarkets now adopt which makes comparisons between similar products for consumers more transparent.

While prices are obviously a major factor in assessing the effectiveness of energy markets, we would suggest that the range of energy services offered to consumers by suppliers, covering aspects of energy efficiency for example, should also be considered as a point of comparison when taking into account the operation of energy markets. This point is particularly relevant given the change in how the sustainability objective is considered within Ofgem.

We also note your comments that the majority of customers on dynamic teleswitching tariffs, which is particularly prevalent in Scotland, have never switched, and that a high number of customers only switch when prompted by direct selling which is highly unlikely to be targeted at these customers. You may want to consider whether particular proactive promotion is therefore required to facilitate more competition in this sector of the market. You may also want to consider whether sectors of the market such as this, and those on pre-payment meters should be targeted for early roll out of smart meters.

We also welcome the announcement in the Pre-Budget report of the proposed quarterly report on the link between wholesale and retail energy costs. In our regular meetings with the major energy supply firms in Scotland, we have urged them to pass on the fall in wholesale prices which have occurred in recent weeks to their customers as soon as possible. We would urge that Ofgem continue to monitor this relationship and make clear if there are any apparent anomalies which occur.

While we would hope that agreement can be reached with the energy supply firms on many of the points you propose quickly, we would urge consideration of using your full range of powers if such agreement is not forthcoming to your satisfaction, including the possibility of a market investigation reference to the Competition Commission

We trust that these points raised in this response are useful and would be happy to discuss any of these points with you in more detail.



JIM MATHER