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20<sup>th</sup> April 2009

Dear Mr Baker,

### **Consultation Response: Direct Debit Arrangements**

We are responding to your consultation on the above subject. We have not addressed all of the questions that you have raised but have chosen to focus on those that are most relevant to our current business of supply to small and medium businesses.

The current raft of consultation is substantially increasing the regulatory risk associated with energy Supply and we do not agree with Ofgem's assessments in this and other documents that there will be no impact on the numbers of new entrants.

Turning to the questions that have been raised:

#### **3.1 Is a licence condition needed?**

We do not believe that a licence condition is needed. In fact we believe that further licence conditions will bite even more deeply into suppliers' ability to differentiate their products and to innovate. We refer to our other consultation responses. Licence conditions act as constraints on suppliers and they prevent a supplier from acting freely in the market. Whilst it may be tempting to try to second guess what constitutes good and bad practice it is ultimately customers that should decide. For example, it would be easy to draft a condition which prevented a supplier from offering a discount to a customer who maintained a substantial credit balance. This is just one example of how a well intentioned condition may constrain product development.

#### **4.1 Which of a b or c should apply?**

We do not support the introduction of any licence condition. Option a is the least constraining but it is easy to imagine products where it would be redundant at best and therefore potentially dilute an otherwise viable product. Option C is hugely risky from a suppliers' perspective as it allows endless tweaking and change to what is and is not allowed without the protection of the formal licence change process. It is highly undesirable and could poison the whole regulatory environment.

#### **4.2 Small Businesses**

We do not believe that any licence condition should be applied to small businesses. The SME sector is already very competitive and there is a real risk that further innovation would be stifled by even lightly drafted conditions. In addition, much of SME power is supplied under fixed price contacts which makes

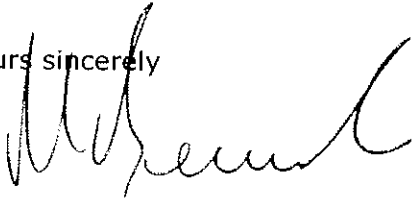
the whole DD process easier as the DD schemes do not have to cope with unpredictable price changes.

#### 4.3 Timescales

If you do decide to make changes you should allow a long lead time (at least a year) to allow Suppliers to make and test the necessary changes to their systems and processes. This would be a particular challenge for smaller suppliers who do not have substantial IT resource and who would have to sacrifice other developments (and associated customer benefits) to implement this.

Finally, we have seen a number of proposals emerging from the Supply Probe relating to SME customers that are being consulted on as side issues to domestic regulation and we believe that these should be dealt with separately to ensure that SME and SME supplier views receive due consideration. At present there is a real risk that many interested parties will ignore the SME aspects of this consultation because it is headlined as applying to domestic customers.

Yours sincerely

A handwritten signature in black ink, appearing to read 'P R Bennell', written in a cursive style.

P R Bennell