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Dear Ms Tewari

Consultation: Supply Licence Condition 23 – Period for notifying unilateral contract variations and other consequential issues

We are disappointed that Ofgem's analysis does not consider the potential adverse consequences to consumers of advanced notification of price rises, in particular the increased risk, and hence requirement for increased margin, as suppliers have to manage unexpected price positions and the detriment to customer service from compressed mailing windows.

The increased risk is exacerbated by a each day added to the notification period and this can also lead to further customer detriment:

- Loss of immediacy of the price change communication, reducing the effectiveness of the call to action to change usage or to take a meter read.
- Potential need for indicative price increases[1], to allow for adjustment as networks charges are published and to manage risks from energy price movements.
- Difficulty in ensuring a fair price comparison for sales, as it is not unequivocal that the switch will only take place after the new prices take effect.

These issues are largely unique to the energy sector and quite different from the example cited from the financial sector of bank overdraft charges. The mortgage market has some similarity, in the significance of managing risk, and it is notable that the Lending Code does not apply here and there can be immediate implementation of increases.

We propose that if there is advance notification the period should be at most one week[2].

<u>SLC23 Notification to a supplier</u>

We support the proposals to link customers' notification period to the implementation date of a price change, but see no case for extending the effective period beyond 20 working days. For those customers who are prompted to consider switching as a result of the notification process in SLC23, it

[1] An example of an indicative price increase would be an "up to X%" or "on average Y%" formulation. Advance notification in this way would allow customers to change behavior to reduce energy usage, and to plan a meter read, whilst providing some flexibility for a supplier to manage cost changes.
[2] In our response of 14 May we suggested a maximum of five working days, but it will be simpler for customers if customer facing obligations use calendar days.

would lead to confusion, with multiple distant dates (under Ofgem's proposals, price increase 4-6 weeks ahead; last date for notifying their suppler 8-10 weeks ahead). For those customers who need no prompt and know the rules it would just allow a further four weeks of lower prices, a cost borne by all other customers.

If there is a one week period of advance notification, SLC23.6(a) should be amended to allow customers three weeks after the effective date. For 30 days advance notice, customers would need to notify their supplier by the effective date.

We agree with the proposal to allow additional time for customers in debt, even though notification would normally be more than five working days before the effective date.

We welcome the proposal to continue at allow 15 working days for receipt of the loss message.

Other consequential amendments

We welcome the proposed clarificatory amendment to SLC23 and SLC24.

Amendment is also required to SLC31A.1(b) to make the reference date the effective date of price increase rather than the (earlier) date of the Notice. This avoids the complexity of the SLC31A projected cost being based on a future price, triggered by a Notice which is staggered over a few weeks as letters are sent to customers.

Sales – comparison of charges

Advance notification would complicate the already challenging issue at a time of price change of giving the fair comparison required by SLC25. There is a need for consistency over the use of a new price in a comparison and the presentation of the risks of future, and perhaps imminent, price changes. Ofgem could usefully issue guidance, for both suppliers and brokers. The guidance notes could also cover other issues of clarity, such as in the use of indicative price increases. A likely scenario is that a fixed price product becomes an attractive promotion at time of price increase; it would not be in customers' interests for this to only be able to be sold in comparison to the old price or even selling to have to be suspended until full details of the current new prices are available. We believe it is consistent with the principles of SLC25.6 "to use best available information" but would appreciate confirmation from Ofgem that some risks are acceptable in a price comparison during a period of uncertainty.

Implementation Period

Ofgem's latest quarterly report highlighted that by Spring 2011 margins could be at a very low level. It seems likely therefore that the further consideration Ofgem will need to give to the responses to this consultation will lead to any proposed licence change adding to the difficulties of implementation we have outlined above.

We recommend that any licence change is expressed as "reasonable endeavours to provide advance notification". This would allow for some exceptions e.g. for communication to customers with bill address issues and also recognise the reality of potential postal delays. On this basis we believe we can achieve a one month period for implementation.

We would be pleased to meet, to discuss these issues.

Yours sincerely

Graham Kirby

Retail Regulation & Energy Policy Manager