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19 January 2011

Dear Meghna,

Proposed modifications of Standard Licence Condition 23 (SLC 23) of the gas and electricity domestic supply Licences: period for notifying unilateral contract variations and other consequential issues

Thank you for the opportunity to comment on the above consultation. We welcome the Impact Assessment in helping to clarify Ofgem's approach to the issue of requiring advance notification for unilateral variations such as price increases.

We agree that advance notification, in principle, seems to present the most beneficial approach in terms of customer protection and, through the Impact Assessment, have been able to understand more directly Ofgem's view of the benefits for customers.

However, we do not think that the Impact Assessment adequately demonstrates that the right balance is for individual customers to have 30 days' notice, having regard to the impact of this rule in slowing down the operation of the market and altering hedging strategies. We would therefore urge Ofgem, even at this late stage, to look at compromise options such as:

- (a) a minimum of 14 days' individual notice; or
- (b) a minimum of 7 days' individual notice, providing that 30 days' notice or more had been given by public announcement, otherwise 30 days' individual notice.

Subject to this, we are broadly comfortable with the remaining proposals 2 to 5 within the consultation document. We think that these are generally sensible and provide better clarity for suppliers in managing the overall process.

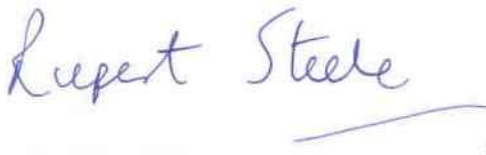
However, we continue to believe that the proposed implementation timescale of 1 month from the effective date of the Licence Conditions is too short to address the complexities associated with the wider price change notification process. While the consultation process remains open, it is not possible for suppliers to fully understand and address these issues, which include the impacts of providing accurate estimates and comparisons on future prices as part of the sales process and providing annual consumption and forecast spend, based on prices that will not yet be included within the

billing system. In addition to this, there will be process exceptions, including change of supplier or change of tenancy which will also need to be resolved.

The importance of getting this right for consumers means that the new processes will not be achievable within a month, as these additional impacts will not be fully clear until the final Licence Condition is confirmed and suppliers have had time to understand the interdependencies. Therefore, we believe that 4 months allows an appropriate timescale from the Licence Conditions taking effect for compliance with the Condition.

I attach a note which sets out our reasoning concerning the impacts of individual 30 day notification on the operation of the market and the benefits of various timescales for consumers. Please contact me directly using the contact details printed on the first page if you require further information.

Yours sincerely,

A handwritten signature in blue ink that reads "Rupert Steele". The signature is written in a cursive style and is positioned above a thin horizontal line.

Rupert Steele
Director of Regulation

IMPACTS OF 30 DAY INDIVIDUAL NOTIFICATION – SCOTTISHPOWER VIEWS

Impact on suppliers

We do not think that Ofgem's assessment of the impact on suppliers' pricing strategies has been fully explored. The consultation states that:

“Under the current arrangements suppliers are able to pass through short term wholesale price volatility immediately to customers. Under our proposal, they are only able to do so with a lag of 30 days or more. The magnitude of this impact will depend upon each supplier's hedging strategy.”

In fact, the process is significantly more elongated than this. The stages which a supplier has to go through to achieve 30 days' individual notification include:

- (a) drafting the communication or communications – say 7 days
- (b) preparing and printing the mailing – say 21 days
- (c) posting the mailing and allowing it to arrive to the customer (this can run partly in parallel to (b) – add maybe 7 days)
- (d) wait 30 days
- (e) implement

This is a total process of around 65 days – more than two months.

While it is true that the actual impact of this will depend on each supplier's pricing strategy, at the least it will make all suppliers more cautious in hedging and pricing, forcing suppliers to engage in longer term hedging strategies in order to shield themselves from the shock of rapid market movements. In the longer term, this may have the effect of forcing prices higher, to accommodate for extreme moves in the market, and will also mean that consumers are less likely to see price reductions, as a more cautious hedging position could mean that suppliers are less able to react to more immediate drops in the market. This is also likely to impact smaller suppliers and deter new entrants to the market who may not have the ability to hedge appropriately to reflect the new arrangements.

We also think that these rules may be detrimental to competition by slowing down the competitive process. Everybody's reactions in the market will be slower. And those suppliers that generally have to act as price takers may suffer especially.

Benefits for customers

We are also concerned that if an advance price change notification is to have the desired customer benefits, it needs to prompt an appropriate call for action for the customer. Our concern is that 30 calendar days may be too far in advance to create a sense of urgency for the customer, particularly for low income customers, who may not budget for the month ahead.

In terms of taking and providing meter readings and giving the customer the opportunity to budget, we think that a shorter notification period, or 7-14 days, would create more of a sense of reality for customers. Either period would provide the customer with a sense of an imminent event, prompting action (which 30 calendar days may be seen too 'distant' to do).

We also recognise the benefits of enabling customers to pay off a debt prior to the price change taking effect, which is another of Ofgem's stated benefits. However, given that

Ofgem is proposing to retain the right to allow an indebted customer 30 working days from the date that they receive an objection notification to pay off their debt and switch supplier without incurring the price increase, we do not see that receiving individual notice 30 calendar days in advance of the price change date gives customers an additional benefit.

In particular, given the impacts on supplier processes – which remain real, although we understand that Ofgem does not consider these to outweigh the customer benefit – we would like more consideration of the balance between creating an appropriate call for action for the customer and the need to minimise impacts on the ability of suppliers to respond to market events, and therefore on the swift and effective running of competition.

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