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Dear Stefan,

The Retail Market Review - Findings and initial proposals

Thank you for the opportunity to respond to your consultation on your findings and initial proposals in respect of the Retail Market Review. Our responses to various questions raised in the consultation are set out below.

CHAPTER: Two

Question 1: Do stakeholders agree with our findings of the Review in relation to causes of persistent consumer harm and barriers to entry in the energy retail markets.

Yes, Ofgem have undertaken thorough analysis on the energy retail markets and have identified key practices that cause consumer harm.

CHAPTER: Three

Question 2: Do stakeholders consider that Ofgem should take action to reduce the complexity consumers face and enhance engagement with the energy market?

Yes, we support the Ofgem view that action is necessary to reduce the tariff complexity that consumers face, in particular measures that will allow direct comparison of suppliers charges without the need to perform detailed calculations based on anticipated consumption levels.

Question 3: Do stakeholders agree with our initial proposal for intervention to reduce the complexity consumers face and enhance engagement in the energy market?

Whilst we are broadly supportive of the proposals, further detail and clarification is required as detailed in the responses below.

Question 5: We are proposing to standardise evergreen contracts across suppliers. Do stakeholders agree with the proposed contents of the standardised charge?

Whilst this approach seems sensible in principle, Ofgem need to provide greater clarity with regard to Distribution Use of System charges on what is proposed. DNOs, in conjunction with Ofgem, suppliers and other stakeholders, have been developing their methodologies for deriving use of system charges. These are required to be reflective of costs and thereby contain different tariff elements such fixed charges and unit charges. As we move to the low carbon economy these structure may become more complex to ensure efficient use of the network. We would expect that these developments in distribution tariff structures are incorporated into the standardised charge and this is not converted into a p/kWh rate. We are also concerned if the proposals to set these rates annually are passed on to DNOs, thereby lead to greater risk of under-over recovery and consequently higher risk premiums being paid by customers.

Question 6: We are proposing to create a standardised metric to allow consumers to compare evergreen and fixed term contracts across suppliers. Do stakeholders agree with our proposal for a standardised metric?

This is appropriate to enable consumers to assess and compare the potential benefits of alternative fixed term contracts and to provide details of whether consumers have on average benefitted from them.

Question 11: Do stakeholders consider that there are other intervention options we should be developing?

As a DNO, we use Settlements data to report distribution losses as part of the losses incentive within our distribution price control. We, along with other DNOs, have observed major movements in the level of units distributed due to adjustments being undertaken by suppliers, primarily the Big 6. The effect of these adjustments is to allow suppliers to adjust the units allocated to them in the settlement process where they believe they have been over reported in the past. The effect of this is for new entrant suppliers to pay incumbent suppliers for past alleged data errors. This, we believe, has an anti-competitive effect contrary to the objectives of the Balancing and Settlement Code and DNOs will be seeking to amend the BSC and its associated procedures to prevent such occurrences. We also believe that greater inspection and auditing of the data suppliers enter into settlement is also necessary. We would welcome Ofgem's support in these initiatives which will assist in resolving some of the anti-competitive effect of the wholesale market.

Question 27: Do stakeholders consider that our proposals will be sufficient to protect the interests of consumers, including vulnerable consumers, or are additional consumer protections measures necessary?

The proposals are a useful starting point, and additional measures should not be considered until the effects of these proposals have been determined. Ofgem should be looking to achieve the desired outcome with the minimum level of intervention.

Question 28: Do stakeholders consider that our measures to simplify tariffs will reduce the ability for suppliers to price discriminate between regions and so reduce the need for a licence condition prohibiting undue discrimination?

It is too earlier to judge the effectiveness of the proposals and the existing obligations should remain in place until they have been proved to be effective.

Yours sincerely,

A handwritten signature in blue ink that reads "Tony McEntee". The signature is written in a cursive, slightly slanted style.

Tony McEntee
Head of Commercial Policy