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Dear Mr Bojanowski,

ERA response to Ofgem’s “Retail Market Review - Findings and initial proposals”

Please find attached three reports commissioned by the Energy Retail Association and Energy UK as our response to your Retail Market Review.

The first is a report from Frontier Economics which has been commissioned to provide an independent review of your proposals to improve tariff comparability. The report examines Ofgem's proposed remedies in detail and the evidence base that underlies them. It also considers whether the proposals are proportionate and outlines some possible unintended consequences that may flow from them. The report concludes with some alternative proposals which Frontier Economics suggests may be more effective ways of addressing Ofgem's concerns.

I also include an independent analysis of the Ofgem paper *“Do energy bills respond faster to rising costs than falling costs?”*, by NERA Economic Consulting. The NERA analysis comments on the econometrics that Ofgem used to examine pricing behaviour in British retail energy markets. It also examines the economics of asymmetrical response and includes a number of different possible interpretations of price asymmetry. The analysis finds that further work would be required to establish whether or not there is asymmetry in price responses and concludes that even if price responses were asymmetric, this would not prove a market was uncompetitive.

Finally, our members continue to have concerns about public misconceptions regarding industry profitability that follow from Ofgem's quarterly Electricity and Gas Supply Market Reports. You will be aware that to address this issue, EnergyUK has commissioned a regular series of reports from NERA Economic Consulting with a view to providing a more realistic view of profitability in energy retail. NERA has now produced a report, "*Quarterly Reports on Retail Electricity and Gas Markets in Britain: A Retrospective*", which provides an overview of the work to date. It concludes that Ofgem's Market Reports can lead to stakeholders taking an incorrect view of the profitability of energy retailing.

We would be pleased to have the opportunity to discuss these reports with Ofgem in due course, whilst you develop your conclusions to the Retail Market Review.

For clarity, the ERA will not be responding directly to the questions in the RMR, however members may individually submit their own responses.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'L Slade', written in a cursive style.

Lawrence Slade
CHIEF OPERATING OFFICER
ENERGY RETAIL ASSOCIATION