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1<sup>st</sup> June 2011

Dear Stefan,

## **Re: Retail Market Review**

Gazprom Marketing & Trading Retail (GMT&R) would like to thank you for the opportunity to respond to your consultation. We are happy for our comments to be shared with other interested parties.

GMT&R operate as both a Gas and Power Supplier in the UK Non Domestic Sector. We note from the presentations made at ICOSS and the Small Supplier forum that Ofgem are particularly interested in views on the Principles set out in the consultation and that the details will be subject to subsequent consultations.

### **Proposal 1 – Make it far easier for domestic consumers to compare prices and choose a better deal**

We would note that it could be argued that fixed term arrangements are potentially more restrictive than evergreen contracts as customers can switch without restriction when on evergreen contracts.

It is also important to recognise that a fixed term deal which isn't renegotiated will end up defaulting to a Deemed Contract which may not provide the best cost option for the customer.

Furthermore the introduction of more Green Tariffs, the Governments Green Deal and the UK wide roll out of Smart Metering should enable more innovative and tailored products to be provided to consumers and we should avoid these proposals inadvertently compromising these other strategic initiatives.

## Proposal 2 – Improve access to wholesale market products for new entrants and independent Suppliers and Generators

GMT&R welcome the broad policy goal of increasing liquidity in the Power Market.

While increased liquidity is vital to ensuring a vibrant and contestable market we believe it is also important to highlight access to Credit as being of equal importance for market participants. For smaller market participants the access to and cost of Credit is fundamental to their ability to participate in the market.

The importance of these arrangements can be seen from recent modification proposals relating to Credit arrangements in the Gas Market. These demonstrated that changes can have adverse and unforeseen implications for smaller market participants who cannot leverage larger parent organisations to offset costs.

We would therefore welcome a parallel review of Credit alongside the development of liquidity perhaps utilizing the new Green Bank.

It is important to note that the vertically integrated Generators and Suppliers tend to align their Generation with their Supply portfolios and this can create issues in terms of accessing liquidity in the Wholesale market. In terms of releasing generation we believe it is important to ensure that the mechanism for calculating the release of generation is open and transparent and does not create perverse incentives for generators to optimize flexibility within their generation assets.

GMT&R therefore believe that the role of the Mandatory Market Maker (MMM) is critical.

We believe the MMM will need to ensure: -

- Volumes released are based on a reasonable view of Generation capability perhaps taking into account the size of the relevant Supply Portfolio.
- Transparency to ensure that no intra trading takes place between the big 6 which could lock out the extra liquidity and regulatory supervision to prohibit any tactical bidding behaviour should the Big 6 be allowed to participate both on the buy side and on the sell side.
- Visibility of pricing including screen pricing and a variety of available products e.g. year plus forward pricing, screen prices for a shape product etc. We would like to highlight, in particular, the need of small/independent market participants to get access to forward peak products, whose availability on the market is currently very limited.
- Alignment with the procurement and hedging needs of small/independent suppliers by offering suitably sized contracts, ideally clips of 1MW.
- An active market with sufficient numbers of market participants
- Price Credibility with realistic reference prices which are credible
- Suitable credit arrangements to ensure market players can access the market
- Concentration of liquidity on a single common platform to facilitate trading and to avoid creating additional collateral requirements for small market participants
- Any auctions to be carried out at a regular frequency

### Proposal 3 – Strengthen and enforce 2008 Probe remedies

GMT&R as a Non Domestic Supplier are not proposing to comment on Proposal 3

### Proposal 4 - Take further action to prevent unfair contracting practices in the non-domestic sector

#### Micro Business

GMT&R operate as a Non Domestic Supplier of both Gas and Power into the UK markets and we enter into commercial contracts with businesses for the supply of energy. We strongly believe that commercial customers benefit from the wide range of goods and services available to them and that the detail of each commercial contract reflects the commercial risk associated with the products being provided.

We do not see a case for extending the existing provisions for Micro Businesses arrangements and believe that any such extension could be detrimental to Non Domestic customers who benefit from being able to access bespoke products under normal commercial arrangements.

We would also note that by extending the imposition of long pricing methods into the larger SME market the Supplier will have to pass on the risk of price movement into the customers offer and this will have the perverse effect of increasing customer costs.

#### Third Party Intermediaries (TPI's) & Sales Agents

GMT&R believe it is important to recognise that TPI's and Sales Agents operate in two distinct ways: -

- Customer Agent model. In this scenario the Customer is contracted directly with the TPI and the TPI acts as the Customers agent.
- Supplier Sales Agent model. In this scenario the Sales Agent is contracted to the Supplier and seeks customers on behalf of that Supplier.

We note that any concerns over the actions of a TPI or Sales Agents fall within scope of the Office of Fair Trading (OFT) and we believe it is for the OFT to take appropriate action over any specific concerns about the way in which TPI's and Sales Agents operate.

We do not believe Licence Changes are appropriate and would deliver any benefit as the imposition of obligations through a Suppliers Licence will simply lead to Sales Agents moving away from the Supplier Sales Agent model to the Customer Agent model. This would have the perverse effect of reducing oversight as the Customers Agent Model is outside the remit of any direct contractual relationship with the Supplier.

### Non domestic – Back Billing Limitations

Ofgem highlighted the press release from Consumer focus (130411) and noted a potential issue arising from large scale Smart Metering Deployment i.e. as accurate read data will be obtained it may lead to large number of corrective invoices which may cover long periods.

For Domestic Suppliers Back Billing is limited in accordance with the ERA CoP - Back billing limited to 12 months. Therefore Ofgem do not see a requirement to Licence. However, in the Non domestic market no such agreement exists and Ofgem were seeking views on any requirement to limit back billing.

GMT&R does not support the introduction of a back billing limitation and would note that the Domestic Market is able to reconcile its position via the RBD mechanism which is not available to the majority of the Non Domestic Market.

We also note that the individual domestic error risk is physically limited by the capacity of the physical asset connected at the site whereas in the Non Domestic market a wide range of complex metering is deployed which is provided by third party asset managers and thus errors can be significant on an individual meter basis.

In such circumstances we believe it is unreasonable to limit a commercial customers risk when they have benefited from the energy consumed as this would require Suppliers to socialize the risk across its customer portfolio.



We would not wish to see proposals introduced which could also lead to customers seeking to avoid costs by limiting access to metering, which could create safety concerns, knowing that after 12 months they will be able to avoid charges.

Additionally there are already statutory limitation periods which should give comfort to non-domestic customers against significantly historic revised bills and we believe this should be sufficient and Ofgem should not step in to override this established position.

We would also like to highlight the work carried out as part of Uniform Network Code (UNC) 0152VB: Limitation on Retrospective Invoicing and Invoice Collection and Ofgem's decision dated 10<sup>th</sup> October 2007 which accepted that a 4-5 year model was "optimal".

### Proposal 5 – Improve reporting transparency

GMT&R would support any improvements which lead to greater transparency of vertically integrated utilities particularly as the market is going through a fundamental transformation with the implementation of Smart Metering across the UK. We would note that a number of the Big 6 Suppliers are developing their own Smart Metering Businesses.

### Summary

I trust these comments are helpful. If you have any queries regarding this response or wish to meet to discuss our comments please do not hesitate to contact me directly.

Yours Sincerely

Steve Mulinganie  
Regulation & Compliance Manager