

The Retail Market Review - Findings and initial proposals

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Respect Energy Limited is a potential new entrant to the gas and electricity markets in the UK with 11 years experience of this market.

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 in the case of Proposal 2 – Enhance (Wholesale Market) Liquidity and No for all the others.

The principal failing in the market is in the lack of development of sustained competitive and material new entrants. Working together if we can level the playing field for new entrants then most of the other issues will fall away or become irrelevant. New Entrants continue to have a market share of less than 1% which is simply not good enough.

Only some of the barriers to new entrants are addressed in your proposals and a wider and more substantive set of measures are needed to see a fully competitive market with active entry and exit established. Three areas should be considered in addition to Proposal 2 to increase the rate of market entry.

- Working with the FSA to find regulatory acceptance of transferring the industry credit requirements to the individual consumer in an open and transparent way that does not result in more barriers. Might look something like a windows guarantee scheme.
- Creating a service through gemserv/elexon/Xoserve that allows new entrants to rent operating systems that pass all regulatory testing for a modest yet material upfront fee and a monthly per customer fee (limit this to 25,000 customers). This will make more use of the skills needed in these organisations and reduce costs.
- Creating a service through Central Energy Buyer/Treasury that provides new entrants with a wholesale trading service that mimics a 12 month hedge policy (with a balancing service) and with credit terms to match point 1 above, this can operate alongside the proposed CfD's for generation.

Respect Energy Ltd would be delighted to discuss these proposals in detail with you.

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?

No. With respect you attempted this with the 'APR' for energy costs and the definition of 'Green', neither have been remotely successful and consumers are none the wiser. Its retail competition you need.

The way to increase consumer engagement and have more competition is to use smart meters to move to a universal prepayment mode of operation where consumers 'fill up' their meter and chose at each filling where to purchase the energy. This would be the backbone of a revitalised energy retail market. This Universal Pre Payment Meter proposal was sent to DECC during the smart meter consultation processes.

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

No. You said 'restrict the number of tariffs for standard evergreen products' ask Mori to see how many customers would know what such a tariff is; quite a few would say 'using windmills'.

Question 4: If not, then do stakeholders have alternative suggestions for proposals to reduce the complexity consumers face and enhance engagement in the energy market?

Yes. Greatly reduce barriers to entry and allow innovative new companies to attract customers away, one such product may well be simple tariffs.

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

No.

Better would be to get the distribution and transmission companies to bill for their services directly. This would make the residual supply bill clearer and make the point of contact for supply interruptions etc plainer, they could also bill for energy lost in distribution or transmission to make clear the benefits of micro generation schemes. It would also further reduce the credit barriers for new entrants. Oh and they would bill smart meters obviously and ensure interoperability thereof.

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?

No. The standardised metric for this is £'s. Customers understand £'s, a metric will increase confusion not lower it.

Question 7: Do stakeholders have any comments on the costs and risks of our proposal, or any alternative suggestions that you have put forward, to reduce the complexity consumer face and enhance engagement in the energy market?

The strategic decision is whether to continue with a competitive retail market or not. On the assumption that a competitive retail market is the only tool left to regulators the right tactics are now to make it work by introducing active new entrants.

Market interference in the price of retail products is a reversal back towards public ownership or monopolistic regulation of retail supply.

Question 8: Do stakeholders consider that low electricity market liquidity constitutes a barrier to entry in the domestic retail supply market?

Yes. Fully support the excellent work you are proposing here.

Question 9: Do stakeholders consider that our two proposed interventions (the MA and the MMM) could improve the ability of the wholesale electricity market to meet independent participants' needs, and will ultimately improve the likelihood of retail supply market entry?

Yes this is a big help, it helps with liquidity issues that have been widely documented and it helps with investor confidence in seeing a regulator that is encouraging competition in an active way.

Question 10: Subject to the results of our further wholesale market assessment, do stakeholders consider that both interventions could be necessary to meet the objectives stated in questions 8 and 9?

Yes. Both bulk energy contracts are needed to provide for a forward hedging policy and balancing services to deal with the short term and spot fluctuations this balancing market is needed in both gas and power.

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

As above, whilst liquidity is a very important barrier the other two significant ones are, credit requirements and systems complexity.

Question 12: On the basis that we could decide to take forward these interventions, do stakeholders have comments on the indicative design choices we have made, as set out in Appendix 2. In particular, views are welcome regarding our initial position on each of the following:

Given proposal in Q13 below the initial design seems a good start.

Question 13: Do stakeholders have any comments on the costs and risks of our proposal, or any alternative suggestions that you have put forward, to take action to improve wholesale electricity market liquidity?

The central buyer for CfD Fits as proposed by DECC should take that contractual position and the one proposed here of say 10-15% of energy to be auctioned and become a market maker, re-packaging these contracts to support the auction process. The repackaging would be to meet the needs of the new competitive players and your proposals are a good start to that.

Question 14: Do stakeholders consider that Ofgem should strengthen licence conditions around suppliers' communications and interactions with their customers, to give suppliers less freedom in how they interpret these obligations?

No. Allow competition to take hold and these issues will be resolved

Question 15: Do stakeholders consider that Ofgem should increase its monitoring and enforcement activity to enhance suppliers' compliance with licence conditions?

No. It's very costly, not very effective and the remedies so far have been trivial.

Question 16: Would stakeholders welcome the extension of some elements of the Standards of Conduct into domestic supply licence conditions?

No. We need less regulation and more competition please.

Question 17: Do stakeholders agree that more needs to be done to improve consumer trust and use of switching sites?

No. This is not the problem the problem is not enough genuine and distinctive offers from new companies.

Question 18: Do stakeholders have any comments on the costs and risks of any of our suggested policies under Proposal 3?

No.

Question 19: Do stakeholders consider that Ofgem should strengthen licence conditions to prevent unfair contracting practices in the non-domestic sector?

No.

Question 20: In particular, would stakeholders welcome additional licence conditions surrounding the objections procedure?

Yes, there is evidence of wilful or otherwise use of objections

Question 21: Would stakeholders welcome the extension of some elements of the Standards of Conduct into non-domestic supply licence conditions?

No. Less regulation needed

Question 22: Do stakeholders agree with our position, at this stage, not to extend our proposals on tariff simplification into the non-domestic sector?

Yes.

Question 23: Do stakeholders agree that Ofgem needs to look further at the role of third party intermediaries (TPIs) in the non-domestic market?

No. Let competition develop.

Question 24: Do stakeholders have any comments on the costs and risks of any of our suggested policies under Proposal 4?

No.

Question 25: Do stakeholders agree with Ofgem's proposal to appoint a leading firm of accountants to review the transfer pricing and hedge accounting practices of the vertically integrated suppliers?

No. This will be more expense, it has been tried before going back to late 1990's it didn't work then and it won't work now.

Question 26: Do stakeholders have views on how Ofgem could improve segmental reporting in future years?

Yes. Improve competition and develop other references for costs and let the market sort it out

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

No your proposal will not be enough to protect the interests of vulnerable customers and no additional consumer protection measures are not necessary as they are not the solution.

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?

No. They will only result in more confusion which will make customers stickier.