



Gas or Electricity Supply Licence
Holders, consumers and their
representatives, and interested
parties

*Promoting choice and value for
all gas and electricity customers*

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Date: 22 June 2011

Dear Colleague,

Ofgem's Retail Market Review – update and next steps (non-liquidity proposals)

This letter updates stakeholders on the process of Ofgem's Retail Market Review¹ (the Review) and our intended plan for the coming months². At its board meeting on 16 June 2011, in light of responses to our consultation document, The Gas and Electricity Markets Authority authorised the Executive to proceed with the development of proposals for intervention aimed at improving the effective functioning of the retail energy markets. In our consultation document, we stated that if, following consultation, we consider that our proposed reforms do not have a realistic chance of addressing the concerns we identified due to industry opposition or otherwise, we will consider a referral to the Competition Commission. Given the responses we have received, our position on this remains unchanged at this stage: we are progressing work on our proposals and will keep this assessment under review.

The consultation period for the Review closed on 1 June 2011. We received nearly 70 formal responses and over 40 detailed emails and phone calls from consumers. Today, we have published the non-confidential responses on our website³. We have also held bilateral meetings with the Big 6 energy suppliers and a number of consumer organisations and small suppliers. We thank all those who have engaged with our consultation.

In the consultation document we asked stakeholders whether they agreed with our findings in relation to causes of persistent consumer harm and barriers to entry in energy retail markets. Many stakeholders broadly agree with our findings and support Ofgem's interpretation of the evidence. However, we have also received responses that highlight areas of contention. At present, our view on the fundamental findings of our review remains unchanged. We continue to study these responses and we will look to acknowledge alternative perspectives where we see fit.

¹ The document presenting the findings and initial proposals of the Review can be found at this link:
<http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=1&refer=MARKETS/RETMKTS/RMR>

² The focus of this letter is on Proposal 1: improving tariff comparability; Proposals 3 and 4 on strengthening protections and information requirements for customers introduced after the Energy Supply Probe in the domestic and non-domestic sectors respectively, and Proposal 5 on improving reporting transparency. Proposal 2: initiatives to enhance liquidity, is being taken forward as a separate project, to independent timelines.

³ Please follow link in footnote 1.

In terms of our proposals, we received broad support for the principles behind our proposed interventions. For example, many stakeholders agree that our proposals should improve the quality of information available to consumers, particularly in terms of improving tariff comparability and the information available on bills and annual statements. We have also received support for a number of proposals in the non-domestic sector, particularly those surrounding the appropriate oversight of third party intermediaries.

A number of responses, particularly those from large and some small suppliers, have expressed reservations with some of the elements of our tariff comparability proposal and have put forward proposals of their own. We will be looking closely at the nature and details of these concerns. In our consultation document, we stated that if, following consultation, we consider that our proposed reforms do not have a realistic chance of addressing the concerns we identified due to industry opposition or otherwise, we will consider a referral to the Competition Commission. At this stage, based on the level of engagement we are observing, and the feedback we have received, we are proceeding with developing our proposals, and we will keep our assessment on whether a referral to the Competition Commission is merited under review, using the same criteria.

We have also received a number of responses from consumer groups and suppliers on our open question on whether additional consumer protections measures are necessary to protect the interests of vulnerable consumers. While some responses from consumer groups called for Ofgem to consider greater protections, such as specific tariffs for vulnerable consumers, responses from the large suppliers pointed to existing consumer protections and self-regulatory protections as being sufficient. At least one respondent highlighted the importance that social policy should play in the protection of vulnerable consumers.

We also take this opportunity to note that soon we will issue the terms of reference to appoint a leading firm of accountants to review the transfer pricing and hedge accounting practices of the Big 6 large energy suppliers. This was a key element of Proposal 5 from the Review and reflects Ofgem's continuing aim to improve the transparency provided by the Big 6 in their financial reporting.

We remind stakeholders that we are at the beginning of a process. We will be taking a number of options through further rounds of consumer research and stakeholder discussions and we will carry out a separate impact assessment on each of these options. Based on these discussions and further work, we will develop a minded to position on each of Proposals 1, 3 & 4.

Towards the end of this year, we will publish the results of this additional work including our draft impact assessments. We will also publish a detailed consultation on a range of options for consideration under Proposals 1, 3 & 4. For each Proposal, we will present our minded to position, together with a range of alternatives.

Ofgem is committed to improve the effective functioning of the retail energy markets. In working towards this, as well as, towards our statutory objectives we remind stakeholders of our duties towards vulnerable customers. We want a market in which suppliers work in the interests of all their customers, and their behaviour engenders trust in the market. We will continue to work closely with industry and consumer stakeholders to realise this aim.

If you wish to discuss any of the issues raised in this open letter, please email rnr@ofgem.gov.uk or contact David Hunt on 020 7901 7429.

Yours sincerely,

Andrew Wright

Senior Partner - Markets