

April 2nd, 2012

Retail Markets Team
Ofgem
9 Millbank
London
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The Standardised Element of Standard Tariffs under the Retail Market Review

Dear Sir,

First Utility supports Ofgem's aim of increasing information clarity and tariff comparability for consumers. However, we believe if the Standardised Element of Standard Tariffs is implemented as envisaged, it will increase customer confusion and may act to further reduce the already minimal level of competition in the domestic sector, thus reducing consumer choice. We are concerned that this proposal will not deliver the benefits Ofgem seek, and we do not support a change if this is accompanied by distortion of pricing and the formation of barriers to competition, both of which we believe may be unintended consequences of the proposal.

While we appreciate that customers may prefer to only need to compare one number in order to compare tariffs, we are of the firm view that this approach may create more issues than it solves particularly in regard to the consumer's ability to seek out the cheapest available deal. We are concerned that the implementation of a regulator-prescribed standing charge will restrict innovation and thus competition, particularly impacting on smaller suppliers who have historically been quicker to offer forward thinking products designed to achieve engagement with customers than their larger competitors. First Utility currently has a range of new tariffs under development which we believe would provide additional benefit to our customers, but a number of these would be forbidden under the standardisation proposals for variable tariffs. This approach may also result in the creation of perverse incentives for larger incumbent suppliers to offer fixed tariffs which will "lock in" their customers for a fixed term of up to 3 years or longer thus making it impossible for smaller independent suppliers to compete for these. While such an action by the incumbents at the present time would almost certainly result in allegations of collusion, Ofgem's Domestic RMR proposals, if implemented, would imply regulatory consent for an activity of this kind.

We are further concerned that a regulator-prescribed standing charge will make it very difficult for consumers to compare (i) a standard variable tariff with a fixed tariff, or (ii) two fixed tariffs, as the standing charges and unit rates for these tariffs will in general be comprised of different components. It is a very likely scenario that consumers, believing that comparing the unit rates is sufficient, may compare just the unit rates for different tariffs and unintentionally sign up to what may be a more expensive tariff than the one they were originally supplied under, as the unit rate alone will not identify which tariff is lowest price. We believe this is an unintended consequence of the proposals as we do not believe Ofgem intend to increase customer confusion. We note that switching sites already take all the tariff information and produce a clear calculation of the annual bill based on the user's annual consumption information, to enable a clear comparison between tariffs to be made.

We are strongly of the view that if, despite these concerns, Ofgem proceeds with setting a regulatory standing charge then this should be amended at least biannually rather than annually so

that smaller suppliers are not disproportionately affected by being subject to within year revision of these costs when it will only be possible to reflect these in charges to consumers on annual basis.

The energy market in Great Britain is undergoing a period of rapid change and smaller new entrants have made encouraging progress in growing their customer bases to levels not seen for non incumbent suppliers for many years. The main advantages possessed by the new entrant companies are their lower cost to serve and flair for innovation. It is worth noting that smaller suppliers have consistently provided the cheapest deals for consumers over the last two years. We are concerned that the proposal for a standard variable tariff with a fixed standing charge with its components determined by the regulator will result in an additional layer of complexity. This will undermine the advantages which have enabled new entrants to effectively compete and provide an additional choice for customers relative to those in the market five years ago. It is very likely that this proposal, if implemented, will have a detrimental effect on both competition and consumer choice and we urge Ofgem to reconsider its approach in this area. We are of course happy to meet directly to discuss ideas and provide further input to this work if helpful.

Please do not hesitate to contact me if you have any questions or would like any further information.

Best regards,

Chris Hill

Chris Hill

Regulation Manager

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