

Non Confidential

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21st December 2012

Dear Louise,

Reference: Retail Market Review
Due: 21st December 2012

Gazprom Marketing & Trading Retail Limited ("**Gazprom Energy**") would like to thank you for the opportunity to respond to your consultation. We do not consider our response to be confidential and we are happy for our comments to be shared with other interested parties.

Gazprom Energy operates in the UK non domestic sector as a gas Supplier and a gas shipper. In addition, we also operate in the UK non domestic power market as an electricity supplier.

Firstly we welcome the updated proposals and the proactive engagement by Ofgem with the market. As we noted in our February response we believe the Non Domestic market is competitive and therefore any intervention by Ofgem should be focused only on those areas where there is a clear case to intervene in the normal operation of the market.

While some concerns have been raised over data quality and bill accuracy, it is important also to consider any action in the context of the ongoing step changes in the market with the roll out of advanced and smart metering systems. The accelerated upgrading of existing equipment will enable data cleansing across the whole market and more accurate invoicing as a result of improved meter reading performance.

As we noted previously we believe that there are three kinds of customer types: -

1. Domestic & micro-business that contract direct with the Big 6 via a tariff;
2. Micro-business and small business that contract via an energy broker; and
3. Large business that use a broker, agent or dedicated buyer.



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We note Ofgem have stated that domestic & micro business (1) appears to be less liquid than the rest of the market.

Gazprom Energy welcomes Ofgem's proposal to take the lead on developing an industry code of conduct for Third Party Intermediaries (TPI's) and would be happy to support this work.

As we noted in our February response, we do not consider the introduction of Standards of Conduct into the Non Domestic market as appropriate. As Ofgem have noted, the non domestic market is not subject to the domination of the Big 6 Suppliers unlike the Domestic market where perhaps an argument exists for mandating behavior.

We believe incorporating a high level set of "ambiguous" principles into the licence which impacts on commercial arrangements in a competitive market will only create confusion and add more complexity while delivering no real benefits to consumers.

In the non domestic sector, the failure to meet a customers' reasonable expectations will likely lead to material breach and thus enable termination of the contract. Our market has not benefited from an incumbent portfolio of customers rather we have had to win customers on the basis of having an attractive offer. In our market, you simply don't stay in business, if you don't as a matter of course, provide what the customer wants.

We hope you find our comments useful. Should you have any questions on or would like to meet to discuss our response, please don't hesitate to contact me directly.

Yours sincerely,

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Appendix 1 – Consultation Questions

Question 1: Do you agree with the envisaged implementation timetable set out in this chapter? If not, what factors do we need to take into account in setting this timetable?

Answer:

As we note in our covering letter, we do not support the introduction of the **Standard of Conduct (SOC)**. It is proposed that the new SOC would become effective from Day 1 (Summer 2013) and if this comes to pass, we would be grateful for timely guidance from Ofgem on the implementation of these new arrangements. We note, and welcome, Ofgem's intention to hold a workshop on the SoC in January 2013 and the proposal to provide guidance that defines the key terms and the enforcement process to allow us to manage the Regulatory Risk should this occur.

In relation to the **End Date** of contract and the last date for submitting notice on the bills of small business consumers, we note the intent for there to be effective from Day 1 + 4 Months (autumn 2013). Of all the proposals put forward, this will require substantial system changes and, as such we would require a suitable lead time to roll out revised billing formats and enable the calculation of the last date for note to be added to the invoice. We are currently evaluating the cost and timelines associated with these proposals

The proposed **expansion of the requirements** of SLC7A to small businesses to take effect for new contracts on Day + 4 months (autumn 2013) is less of an issue to Gazprom Energy as we have always treated all individual gas customers using less than 298,000 kWh as micro business and for power we are not currently proactive in the less than 100,000 kWh market so we will be able to take these changes into account for prospective customers.

The proposal for **contracts entered into before Day 1** which proposes that the requirements of SLC 7A will come into effect 130 days before the first rollover of an existing contract will again not impact Gazprom Energy as we treat all individual gas customers using less than 293,000 kWh as micro business customers and for power we are not currently proactive in the less than 100,000 kWh market.

The proposal that amendments to the termination rule, that require suppliers to **accept termination notices at any time up to the last day of notice period**, comes into effect on Day 1 + 4 months for new contracts and for existing contracts to come into effect on and from the date the first rollover takes effect. Our existing systems allow us to record Termination at any point prior to the final date for submission of termination, so we do not foresee this being an issue.

Question 2: Do you have any comments on our success criteria and the outcomes we expect to see?

Answer: We believe any monitoring of the market needs to be based on robust benchmarking so that those that already provide a high degree of consumer service are not adversely affected by inappropriate success criteria for example solely focusing on increased switching levels should not be the only measure of success.

Question 3: Do stakeholders agree with our proposal for a revised definition for the expansion of SLC 7A?

Answer: In our response submitted in February we set out our support for the extension of the existing micro business definition in line with existing industry standards which has the benefit of both extending the reach of the existing arrangements to all smaller consuming non domestic customers while also making the administration of the obligations more straightforward and cost effective for suppliers. It also provides a simple test which relates to the sites annual consumption which is a standard industry data item easily understood by suppliers and consumers of 100,000 kWh per year for electricity & 293,000 kWh for gas

	Micro business	New small business
Electricity	≤55,000 kWh per year	≤100,000 kWh per year
Gas	≤200,000 kWh per year	≤293,000 kWh per year
Employees and Turnover	< 10 employees and ≤ €2m turnover	Unchanged

We therefore welcome the proposal to extend the scope of the existing obligations in line with a logical industry threshold based on consumption. Gazprom Energy already treats all gas customers with single sites consuming less than 293,000 kWh as if they were micro business customers.

Question 4: Do stakeholders foresee any significant costs or difficulties to our revised definition?

Answer: As we have previously noted, we already treat customers with individual sites who consume less than 293,000 kWh as if they were micro business so we do not foresee any additional significant costs arising from the proposal.

Clearly the addition of the end date and final termination date to the existing invoice formats will create a cost for suppliers and require a reasonable lead-time to implement. We are currently evaluating the cost and timelines associated with these proposals

Question 5: Do stakeholders agree with our proposal to mandate contract end dates on bills for consumers covered by SLC 7A? Are there significant cost implications?

Answer: We believe the provision of contract end dates and the last date by which a customer can exercise Termination may improve liquidity in the smaller domestic & micro-business that contract direct with the Big 6 via a tariff segment of the market. The introduction of the contract end date onto the invoice and the need to calculate and print the final date for termination will involve system development. We are currently evaluating the cost and timelines associated with these proposals

Question 6: Do stakeholders agree the last termination date should be included alongside the end date on bills? Are there any significant cost implications?

Answer: It is obviously beneficial to a customer to be able to see clearly the final date for a consumer to lodge notice to enable the contract to successfully terminate. Clearly adding another data item, and in particular working back to a date dependant on the notice period in the consumers contract, will incur additional cost and time for implementation. We are currently evaluating the cost and timelines associated with these proposals

Question 7: Do stakeholders agree with our proposal to require suppliers to allow small business customers to give notice to terminate their contract (as from the end of the fixed term period) from the beginning of their contract? What are the implications of this proposal, including cost implications?

Answer: Our existing systems allow us to record termination at any point prior to the final date for submission of termination so we do not foresee this being an issue.

Question 8: Do stakeholders consider that it would be to the benefit of customers to allow suppliers to terminate small business contracts, signed under the terms of SLC7A, in specific circumstances where a customer's energy usage significantly increased?

Answer: As we are increasing the thresholds at which SLC7A applies, it may be possible that a site increases its operations significantly and it seems reasonable that these occurrences should be catered for within the LC drafting.

Question 9: Do stakeholders have views on the proposed amendments to SLC 7A set out in Appendix 4?

Answer: Our legal team have raised no concerns over the proposed drafting.

Question 10: Do stakeholders agree that industry processes could be improved to alleviate current issues with the objections process?

Answer: We believe the existing arrangements strike an appropriate balance between the contracting parties which avoids the need for litigation. Where a commercial undertaking enters into a legal contract they have a duty to comply with the terms of the contract and the parties to the contract should be able to rely on that contract. We believe the ability to object is an important industry process that protects both parties from erroneous activity and costly litigation.

It is important to distinguish between a systemic problem with the existing process and the misuse of that process by individual parties. If Ofgem believes that individual parties are misusing the objection process we would expect the regulator to take robust action against anyone proven to be deliberately misusing the objection process.

Question 11: Do stakeholders agree that we do not need to make further changes to the licence conditions at this stage?

Answer: We agree with Ofgem's view.

Question 12: Do stakeholders agree that we should collect and potentially publish information from industry sources rather than from suppliers?

Answer: It is for Ofgem to determine the appropriate reporting framework to satisfy them in relation to market compliance.

Question 13: Do you agree with our proposed approach to tackle issues in the non-domestic market? If not, which alternative proposals do you prefer?

Answer: The Standards of Conduct (SoC) appears to be a regulatory tool that is deemed necessary in the domestic market where the Big 6 supplier's control 99% of the market and therefore it is considered that the market cannot deliver a suitable level behaviour through commercial pressure.

However, the non domestic market is not dominated by the Big 6 Suppliers and customers have access to a broader range of goods and services as well as the advice of third parties. These arrangements are entered into under commercial contracts and provide remedies in the event of dispute or dissatisfaction.

In our market we have to meet our customers' expectations of good service if we are to continue to have a relationship with them. We must also take into account that, in a liquid market, we would expect to contract with them several times during their life and we must provide good service if we are to capture these customers in the future. These customers have moved to us and therefore are by their very nature engaged in the market, are market savvy and benefit from the ability to access the market through third parties.

As previously noted we do not see the benefit of introducing ambiguous SoC into the non domestic Market and would question how they will enhance liquidity or improve on fair and equitable commercial contracts.

Question 14: Does the proposed approach to enforcement mitigate stakeholders concerns about the regulatory uncertainty and risk?

Answer: No.

Question 15: Do you agree the proposed binding Standards should cover small businesses only?

Answer: Yes although as noted we question their appropriateness in the small business sector.

Question 16: Do you agree with the assessment that the scope of the binding requirements should focus on the relevant activities of billing, contracting, and transferring customers (and matters covered by related existing licence conditions)?

Answer: Yes although as noted we question their appropriateness in the small business sector.

Question 17: Do you have any information about potential costs and benefits of the roll out of the Standards of Conduct?

Answer: No.

Question 18: Do stakeholders have views on the proposed New Standard Condition 7B set out in Appendix 4?

Answer: No.

Question 19: Do stakeholders agree with the proposal for Ofgem to develop options for a single Code of Practice (the Code) for non-domestic TPIs?

Answer: As we noted in our February response we believe the market should be afforded the opportunity to deliver robust and effective self regulation therefore we believe the development of an industry Code of Practice is the appropriate and proportionate approach to take.

As Gazprom Energy we have already input into the UIA's review of its Code of Practice and would be happy to support any initiative to deliver an acceptable code.

Question 20: Do stakeholder consider the Code should apply to all non-domestic TPIs (including those serving small business and large businesses)?

Answer: Unlike shippers and suppliers TPI's are not licenced or regulated by Ofgem and therefore it seems appropriate that a code should cover all supply related activities undertaken by the TPI. It also seems appropriate for the CoP to provide for any exemptions that may be identified.

Question 21: What do stakeholders consider should be the status of the Code, the framework in which it should sit, and who should be responsible for monitoring and enforcing the Code?

Answer: We believe that the common Code of Practice should be overseen by a suitable industry group which includes representation from TPI's, suppliers and consumer representatives, however, this would not preclude Ofgem leading its development and then handing its ongoing management to a suitable body.

Question 22: Would you like to register your interest in attending the TPI working group?

Answer: Yes

Question 23: What issues should Ofgem consider in the wider review of the TPI market? What are the benefits and downsides to looking across both the domestic and non-domestic market

Answer: TPI's provide a useful route to market entry and allow Suppliers to enter a market without incurring significant marketing costs. TPI's also provide advice and experience to customers which aides their ability to choose a suitable product from the market. However, as in any unregulated market, the occasional rogue operator can damage the image and reputation of the whole market. The need for robust and proportional underpinning for these market participants is therefore advisable if they are to operate within the domestic sector.