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Dear Neil,

Domestic Retail Market Review Evaluation – a proposed way forward

1. Since the start of the RMR we have consistently set out our view that for RMR to be considered a success:
 - the objectives of licence changes proposed as a consequence of the Review should be clearly defined;
 - these should be subjected to a rigorous quantitative impact assessment; and
 - the impact of each licence change should be tracked so that any consequences for consumers are properly evaluated.
2. The proposal to undertake an evaluation exercise for RMR as set out in Ofgem's Open Letter of 31st January 2014 is therefore very welcome.
3. Whilst the broad direction Ofgem propose is sound, we do have a number of concerns with the proposed framework however. These should be addressed before any framework is introduced. Whilst we note that Ofgem have stated that there is limited scope for this consultation to influence the initial design of elements within the framework, we are concerned that without action in a number of areas the overall outcome of the evaluation may be undermined, with consequential negative implications for how the RMR is ultimately regarded.
4. In particular, our key observations are:
 - **It is critical that the interaction between the RMR evaluation framework and the State of the Market assessment¹ is explicit.** RMR represents the most significant intervention in the energy retail market since liberalisation. We find it difficult to understand how the evaluation exercise can be conducted in isolation from the State of the Market assessment. We expect the measures introduced through RMR to have a material impact on the operation of the retail market, and the way in which it is perceived by customers. As Ofgem recognises these effects may include both intended beneficial effects, and unintended detrimental effects. Although we recognise that the State of the Market assessment will have concluded by late March, there should be an explicit description of the way in which the results of the RMR evaluation will be factored into the market assessment being conducted by Ofgem and the OFT.
 - **There is a lack of detail over which metrics Ofgem will use and the process and the timeline Ofgem will follow.** The framework being consulted on only sets out high level

¹ <https://www.ofgem.gov.uk/press-releases/competition-energy-markets-assessment-framework-published>

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“illustrative indicators”² which Ofgem may use to evaluate the success of the RMR. This does not provide any certainty on which indicators will actually be used, which sources they will be taken from or even what the process will look like to finalise these indicators. This consultation therefore does not help suppliers or consumers more generally understand how Ofgem will proceed, or whether that approach is fit for purpose.

- **The indicative metrics Ofgem have set out do not include some key indicators which will be necessary for an evaluation of the success of the RMR.** In establishing a framework to evaluate the success of the RMR, it is important that Ofgem agree the indicators to be used with stakeholders around the industry. Whilst we broadly support the high level indicators proposed by Ofgem, we consider that a number of key ones are missing. This includes measures of whether the RMR has led to any of the unintended consequences Ofgem have identified. A list of the indicators we believe are necessary for evaluating the success of the RMR is provided in Appendix One of this response.
 - **The proposed evaluation framework does not provide a way to isolate the impacts of RMR from other external factors.** The RMR is being implemented in a retail market subject to large volumes of regulatory, political, and supplier driven change. In addition, there is a high degree of mainstream media coverage and commentary influencing customer perceptions of the retail energy market. This is only expected to increase as we approach the General Election. Many of these external factors will also impact levels of trust, the levels of understanding customers have about the options available to them and the simplicity of tariff choices. A failure to isolate the impacts of RMR from these external factors would lead to inaccuracies in the final evaluation, with implications for any subsequent policy response. Ofgem should set out how they plan to isolate the impacts of the RMR remedies from these external factors as part of this consultation exercise.
 - **Ofgem should explicitly acknowledge that rebuilding consumer trust through the Standards of Conduct will be a long term task.** Implementing the Standards of Conduct is a large project with results being delivered over the medium to long term. Whilst this may be implicit in the framework being consulted on, Ofgem should confirm now that the success of the Standards of Conduct, and its impact on indicators such as trust, will not be judged prematurely. More generally, Ofgem should allow the RMR time to deliver results before contemplating further change before the 2017 review date they have committed to.
5. This response is provided on behalf of the Centrica group of companies, excluding Centrica Storage. It is non-confidential and may be published on the Ofgem website.
- The development of the RMR evaluation framework should occur alongside the State of the Market assessment*
- 6. Whilst we remain broadly supportive of the aims of the RMR, we continue to believe that Ofgem need to set out clear objectives, complete a rigorous quantitative impact assessment; and ensure that each licence change be robustly monitored to ensure the consequences for consumers are properly evaluated.
 - 7. This is particularly important given the size and complexity of the RMR. Whilst it should lead to a simpler, clearer and fairer retail energy market, there is also a known risk that it could reduce consumer engagement still further, with consequential implications for the retail market. Given this, it is difficult to understand why the development of this framework is being done separately to the State of the Market assessment work Ofgem and the OFT are conducting elsewhere.
 - 8. For example, whilst the measures put in place to reduce the number of tariffs on offer may improve consumers’ willingness to access the market, there is a risk that it may also stifle innovation. If this unintended consequence of the RMR were to occur, it could be damaging for both levels of consumer engagement, the effectiveness of competition and trust in energy suppliers.

² For example, Domestic Retail Market Review Evaluation – a proposed way forward, page 16.

9. Similarly, whilst the decision to ban the majority of cash discounts could improve the comparability of various energy tariffs, in removing one of the primary drivers of consumer engagement in recent years, it could also lead to a reduction in overall switching levels. Again, this unintended consequence would be damaging to both competition in the retail market and consumer trust more generally.
10. Given these risks, we are therefore concerned that the development of a framework to evaluate the success of RMR is being completed in isolation from the ongoing State of the Market assessment. If any unintended consequences were to arise from the implementation of the RMR for example, the conclusions from this evaluation would become important evidence for the State of the Market assessment to consider. Although we recognise that the State of the Market assessment will have concluded by late March, there should be an explicit description of the way in which the results of the RMR evaluation will be factored into the market assessment being conducted by Ofgem and the OFT.

There is a lack of detail over which metrics Ofgem will use and the process and the timeline Ofgem will follow

11. Whilst the evaluation framework being consulted on sets out the high level themes and indicators Ofgem will consider including in their evaluation of the RMR, it does not provide specific detail on precisely what will be measured or what source will be used for the data. As a result, whilst we can comment on the broad implications of the draft framework, we are unable to assess the adequacy of what is being proposed.
12. We consider that agreeing a robust methodology for evaluating the success of the RMR is central to providing certainty to consumers that the measures the industry have put in place are working for their benefit. Ofgem should therefore develop more precise indicators, and identify the sources for the data, before consulting further on the final framework. We have already provided Ofgem with a view on what these metrics should be in our previous RMR consultation responses³, and attach an updated view in Appendix One of this response.
13. For example, in evaluating the success of policies designed to increase consumer trust we welcome Ofgem's proposal to measure trust in the consumer's energy supplier, energy suppliers more generally, and overall levels of customer satisfaction. Whilst we understand that Ofgem will use a consumer survey to gather the necessary data for this, it is not clear what questions will be asked, precisely what satisfaction with what will be measured. Neither is it clear what source will be used to measure customer satisfaction, nor even why this has been chosen over the more widely accepted metric of Net Promoter Score (NPS)⁴.
14. The same issue arises with the proposals to evaluate the success of the tariff simplification remedies. It is not clear, for example, how consumers' ability to easily compare tariffs will be measured, and whether this will be done by through a live test or simply a more general survey of customer perceptions. The choice Ofgem make here will determine how accurate the results are.
15. Finally, little information is given on the process Ofgem will use to collect and analyse the outputs, or to what timelines they will work to. For example it is not clear whether Ofgem will complete this evaluation themselves or instead contract with a professional research company. Given the importance of this evaluation and the different skill sets such research evaluations typically require, we have a firm preference for the latter. In either case, Ofgem should set out the specific approach they intend to use.
16. Given these uncertainties, it is difficult for stakeholders to comment on the adequacy of the proposed framework. This is particularly concerning given Ofgem's statement that changes are unlikely to be made to the framework before 2015⁵. Agreement on the framework is important to all stakeholders in

³ See "Final RMR Proposals – British Gas Domestic Consultation Response", Appendix C, 23rd April 2013.

⁴ NPS, developed by Bain, measures the extent to which people would refer a company's service to a friend. Its wide use across sectors means that it enables comparisons of companies' performance both within and without the energy sector. More information can be found here: <http://netpromotersystem.com/about/measuring-your-net-promoter-score.aspx>

⁵ Domestic Retail Market Review Evaluation – a proposed way forward, page 7.

this process. Without agreement gained through an open and fair consultation process, it may be difficult to reach a consensus on whether the RMR has been a success or not. Given the importance of the RMR, this is a fundamental concern. Given the importance of providing stakeholders with an opportunity to comment on the precise measures that will be used in the evaluation, we strongly encourage Ofgem to consult, even informally, on the proposed measures before the framework is finalised.

The indicative metrics Ofgem have set out do not include some key indicators which will be necessary for an evaluation of the success of the RMR

17. Whilst we agree with the high level indicators Ofgem have provided as part of their evaluation framework, we believe that a number of key indicators are missing. A full list of the indicators we believe necessary for evaluating the success of the RMR is provided in Appendix One of this response, however for reference we have set out what we consider to be the key omissions below:

- The number of consumer driven changes of (a) supplier, (b) tariff and (c) payment method. These indicators would help measure the levels of engagement in the retail market. These would also help evaluate whether the removal of some cash discounts has contributed to lower levels of consumer engagement⁶.
- The number of proactive consumer interactions on consumption management. As above, one of the key aims of the RMR is to improve consumer engagement, but this needn't simply be focused on changes in product. Many re-engaged consumers may additionally seek information about how they can better manage their energy consumption, for example.
- The growth rate of small suppliers and new market entrants. This indicator would again help evaluate the extent to which consumers are engaging with the market.
- Awareness of the ability to change supplier or tariff. Whilst research has shown this proportion to be relatively high⁷, this is a pre-condition for the RMR to achieve a number of key outcomes and is therefore important.
- The number of new and innovative products brought to market. This indicator would help ensure that the RMR is not acting to stifle innovation.
- The extent to which suppliers' product ranges are continuing to meet consumer needs. This indicator would ensure that the RMR is not creating unintended consequences which lower levels of consumer choice and engagement.
- The extent to which the RMR is delivering desired consumer outcomes. We believe that a key benefit of the Standards of Conduct will be to focus suppliers on consumer outcomes. No indicators which track desirable outcomes have been provided however. Ofgem should consider what these outcomes are, and provide indicators which evaluate success in meeting them.

The proposed evaluation framework does not provide a way to isolate the impacts of RMR from other external factors

18. In evaluating the success of the RMR, it will be important to isolate the effects of the remedies from changes and events in the retail market which are unrelated to the RMR. We appreciate this will be difficult, given the volume of regulatory and political intervention in the market today, as well as ongoing media and stakeholder commentary. However, it will be vital to isolate the RMR from these external factors if a robust evaluation is to be made. For example, consumer behaviours and perceptions can be materially influenced by factors such as price levels, price changes and price

⁶ This unintended consequence is not identified in the draft framework, but is something which Ofgem have identified separately, for example in their open letter on the application of the RMR rules in the third party intermediary sector, 19th December 2013.

⁷ The Ipsos MORI "Consumer Engagement with the Energy Market – Tracking Survey 2013", 12th June 2013, stated awareness of the ability to switch was at 84% amongst those who had never changed supplier.

differentials. This will continue to be the case, irrespective of how the RMR changes how products are structured and presented.

19. This issue is especially pertinent given the expectation that the impact of such external factors will continue to grow as we approach the General Election in May 2015. Indeed, the current trend for increasing numbers of voluntary best practice industry agreements, whilst setting a minimum threshold of service for consumers, also serve to reduce the areas of potential competition between suppliers.
20. We are therefore concerned that the Ofgem proposals do not set out how this will be achieved. In monitoring whether consumers are more aware of the potential savings from changing supplier or tariff for example, it will be necessary to understand the extent to which this has been driven by the RMR or by more media coverage of the tariffs available. We note that the Europe Economics and Ramboll paper Ofgem published alongside this consultation includes suggestions on how this may be done⁸. Whilst the suggestions in the paper may only be one way to achieve this, Ofgem should set out now how they plan to ensure the framework will exclude such external factors from any evaluation.

Ofgem should explicitly acknowledge that rebuilding consumer trust through the Standards of Conduct will be a long term task

21. We believe that the Standards of Conduct has the potential to become one of the lasting legacies of the RMR. Putting consumer fairness at the heart of suppliers' decision making processes has the potential to drive long term improvements in levels of trust in the market.
22. Whilst we are therefore pleased to see that Ofgem are planning to include a measure of both trust and consumer satisfaction as part of their evaluation, we are concerned that there is no explicit acknowledgement that the Standards of Conduct is a long term project which is likely to deliver material benefits to consumers in the medium to long term. Without this explicitly acknowledged within the framework itself, we are concerned that the subsequent interpretation of Ofgem's evaluation may prematurely pass verdict on the success of the Standards of Conduct before the real benefit of the remedy can be observed. Ofgem should therefore, alongside publishing a framework to evaluate the success of the Standards of Conduct, commit to interpreting the results over the long term.
23. More generally, it is reasonable to expect that the RMR as a package will deliver results over the long term. It should therefore be allowed a chance to bed in before any further intervention is considered, in line with the existing Ofgem commitment to review the impact of the RMR in 2017.

Conclusion

24. We remain supportive of the principles of the RMR, but continue to believe that the remedies may lead to unintended consequences. We are therefore concerned that the lack of detail in the current proposals, and the absence of certain key elements, leaves us unable to say with confidence that an evaluation of the success of the RMR will happen with the robustness and accuracy required. We have set out in this response ways in which these issues can be addressed, and urge Ofgem to revise the proposed framework as soon as possible.
25. Finally, and given the focus of this evaluation is purely on the impact of the domestic RMR, we would welcome clarification from Ofgem on how they will separately evaluate the success of the non-domestic RMR remedies.

⁸ Scoping study for an Impact Assessment of the RMR, Europe Economics and Ramboll. See, for example, section 4.4, page 34.

26. We would be happy to discuss in more detail any of the points raised in this response. If this would be helpful, please telephone me on 07789 570501.

Yours sincerely

David Watson
Head of Market Design & New Energy
British Gas

Appendix One – List of Indicators we consider necessary to evaluate the success of the RMR

This table provides a complete list of the indicators we consider are necessary to evaluate the success of the RMR, and ensure that it has not led to any unintended consequences. It is based on the high level indicators contained within Ofgem's framework, plus other indicators we consider were missing.

Indicators or sources we consider to have been missing are highlighted in **bold text**. Other indicators shown are as set out in the high level Ofgem framework which we consider to be correct.

Policy Aim	Indicator of success	Source
Overall	<ul style="list-style-type: none"> Number of customer p/tariff Number, type and price of tariffs Level of proactive consumer switching, both internally and externally Number of proactive consumer interactions on consumption management Quality of switching Consumer confidence in ability to compare tariffs, understand their current tariff, being on the best tariff and degree to which consumers compare different tariffs Growth rate of small suppliers and new market entrants 	<ul style="list-style-type: none"> Data from suppliers Data from suppliers Data from suppliers Data from suppliers Consumer survey, measuring extent to which consumers secure the benefits they believed they would get Consumer survey Cornwall Energy or Datamonitor data
Building trust	<ul style="list-style-type: none"> Complaint volumes p/customer Objections, including frequency, resolution time and Erroneous Transfer rates. Trust in a consumer's own energy supplier, energy suppliers more generally, and Net Promoter Score. Consumer outcomes⁹ 	<ul style="list-style-type: none"> Data from suppliers Data from Xoserve (gas) and MPAS (electricity) Consumer survey Consumer survey
Improving understanding	<ul style="list-style-type: none"> Design of supplier and TPI communications Awareness of the ability to switch supplier or tariff Consumer confidence in finding the information they need to compare tariffs, in the clarity of 	<ul style="list-style-type: none"> Consumer focus groups Consumer survey Consumer survey

⁹ See paragraph 17 of our covering letter.

	<p>communications; with the level of information provided to them and the degree to which communications prompt customers to either take action or consciously choose to take no action.</p>
Simplifying tariff choices	<ul style="list-style-type: none"> • Number and type of all products available • Consumer satisfaction with the available choice • Consumer awareness of the savings available from switching, and extent to which these savings are considered worthwhile • Data from suppliers, including tariffs, and bundled products, services and rewards • Consumer survey • Consumer survey
Unintended consequences	<ul style="list-style-type: none"> • Number of new and innovative products brought to market, including those designed to support the roll out of smart meters • Impact of regulatory policy on the cost of energy • Extent to which consumers find the volume of information now provided to them confusing • Extent to which the TCR drives consumers switching decisions • Assessment of consumers are less likely to engage following the removal of cash discounts • Data from suppliers • Data from suppliers • Consumer survey • Data from Xoserve (gas) and MPAS (electricity), plus consumer survey