

Jemma Baker  
Retail Market Policy  
Ofgem  
9 Millbank  
London  
SW1P 3GE

28<sup>th</sup> February 2014

**Domestic Retail Market Review Evaluation – a proposed way forward**

Dear Ms. Baker,

First Utility welcomes the opportunity to respond to Ofgem's open letter on evaluating the impact of RMR on the domestic retail market.

First Utility is a leading UK independent utilities supplier, offering electricity and gas services to a range of consumer and business customers. With around 350,000 dual fuel domestic customers, we have gained substantial experience of issues affecting the energy sector today. Outdated billing practices, old technology and inefficient customer service not to mention poor price competition, are just some of the issues affecting UK consumers: these are areas where First Utility is offering a real alternative for consumers.

Promoting competition and engaging consumers is essential to providing choice and fair value to consumers, as well as contributing to government's energy efficiency targets and security of supply objectives. With this in mind, we are leading the sector on engaging consumers in reducing energy demand. Our online programme for customers my:energy monitors energy usage levels, and creates at-a-glance graphs, relevant reduction tips, high usage alerts for customers with smart meters and much more. We have also started a trial for 200 of our customers on mobile home heating controls and are working with Warwick University to assess the effectiveness of these on energy demand and comfort levels.

**Overall Comments**

The changes being made to the regulatory environment have an active role in helping to engage consumers in the energy market, which is particularly true of the measures under Retail Market

Reform (RMR). Overall we are therefore very supportive of Ofgem's efforts to evaluate the impacts of RMR which will be central to monitoring their effectiveness and to establish whether changes or additional measures are required. Key to this will be the use of strong evidence to establish a baseline from which the success of measures can be compared. Whilst creating the baseline is likely to be difficult as well as being able to subsequently isolate the impacts of different reforms, to make the analysis meaningful, Ofgem must bridge the gulf in terms of data that exists between what we have now and what will be required. A good start would be to use the general market indicator work Energy UK's Retail Committee shared with Ofgem with regards the 'Status of the Market' report Ofgem is undertaking and which we have included in the annex to this letter.

#### Further Detail & Additional Metrics

With regards to the process and timeline that Ofgem intends to follow, we would welcome further detail regarding the proposals and guidance as to how First Utility and others can feed into the review process. Achieving this level of engagement from suppliers is important to achieving a robust accurate process which all stakeholders can trust.

Specifically in regards to table 2 of the consultation on the indicators for assessing growth in consumer trust, a variety of methodologies exist: a methodology however has not yet been agreed and neither has the process that Ofgem will follow to decide upon this. Furthermore it is unclear whether this is about measuring trust in suppliers or the industry in general. We advocate a focus on the degree of trust in individual suppliers as this will further the implementation of best practice and support competition, improving the service offered to consumers. In this context, whilst we support tariff simplification, this should not be at the expense of innovation on consumer offerings which Ofgem should also monitor.

We also believe that it is important to use the tariff comparison tools introduced by RMR to monitor the difference between suppliers' highest and lowest prices. This will help assess how much RMR has delivered in reducing the practice of cross-subsidisation for the purpose of providing the uneconomically low acquisition tariffs that distort the market. To this extent, useful indicators will include retail market share outside the Big 6 as well as the number of suppliers (rather than licensees).

#### Unintended Consequences

First Utility has a concern around the potential for unintended consequences, and would welcome guidance from Ofgem on how it will deal with these. We consider the most significant sign to look

out for, to be a reduction in switching incentive on reassurance of cheapest tariff reforms. Likewise in considering the spread between supplier lowest and highest tariffs, it is also important to monitor a convergence of prices as this could deter consumer engagement which is critical for maintaining the momentum achieved on customer switching so far.

#### Relationships with other projects

It is vital that Ofgem progresses with implementation of quicker switching in order to maintain the momentum in customer engagement brought about by RMR.

Lastly, consideration should be given as to how the domestic retail market review evaluation can be incorporated into the annual Competition Market Assessment. It is important that a joined up approach is taken in order to maximise efficiencies of both processes, and to be able to address required actions as quickly as possible.

We look forward to working with Ofgem and other industry colleagues on implementing Retail Market Reform and reviewing its progress as the changes become embedded. Looking ahead and the roll out of smart meters, the regulatory environment will be key to enabling consumers to get the best out of the innovations that are to come.

Please do contact me if you have any questions, and likewise I would be very happy to meet with you to discuss any of the issues covered in my letter.

Yours sincerely,

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Annex: Energy UK paper on 'Demonstrating that the energy retail market is competitive and delivering for consumers: Indicators being taken forward'

## Demonstrating that the energy retail market is competitive and delivering for consumers: Indicators being taken forward

### 1. Overview

- 1.1. Energy UK is undertaking a project to compile, and where necessary produce, a set of indicators to help demonstrate that the energy retail market is competitive and delivering for consumers. The indicators will be used in Energy UK's communications.
- 1.2. This set of market indicators will also be used as the basis for Energy UK's position when discussing the Ofgem/OFT/CMA competition review, and which metrics should be used to gauge the health of the market.
- 1.3. A temporary working group has been set up to deliver the project, overseen by the Retail Committee. As a first stage, the Retail Committee has approved the set of indicators below. These have been shared with Ofgem.
- 1.4. The working group is now discussing the best way to source reliable data in the most cost-effective way.

### 2. Approved market indicators

	Indicator	Specific measures/data source
1	Prices	▶ Comparison with other European energy markets
2	Profits	▶ Consolidated Segmental Statements
3	Customer satisfaction and engagement	▶ Net Promoter Scores ▶ Consumer survey (including questions on consumer trust) ▶ Complaints – amalgamated industry total and speed of resolution
4	Market power, market shares, entry and growth	▶ Herfindahl-Hirschman Index – changes over time and comparisons with similar markets ▶ Number of suppliers (not licensees) with at least one customer ▶ Market share outside incumbent suppliers ▶ Market share volatility (to be investigated)
5	Choice and innovation	▶ Diversity and distinctiveness of supplier and product offerings (option to be explored – not a definitive recommendation)
6	Switching	▶ Intra-supplier switching ▶ Inter-supplier switching ▶ Time taken to switch ▶ Experience of switching supplier (i.e. you switched, how easy did you find it?) ▶ Knowledge of the ability to switch supplier ▶ % of customers who have ever switched supplier