

Future Supply Market Arrangements – Call for Evidence

Dear Neil,

The Industrial & Commercial Shippers & Suppliers (ICoSS) is the trade body representing the majority of the GB non-domestic energy market. Our members, who are all independent suppliers, in total supply in excess of three quarters of the gas and half of the electricity provided in the highly competitive non-domestic market.

Please find ICoSS' response to the above consultation below.

Q1 What are your views on the above criteria? Are there other criteria that should guide our assessment of current and possible future market arrangements?

While the principles laid out in the document seem reasonable, ICoSS would like to express the view that the supplier hub principle was used as the basis for the industry at liberalisation and has since been enshrined within a multitude of codes and processes. It therefore seems likely that reversing this will be both time-consuming and extremely expensive as suppliers will be required to reconfigure their internal processes and systems to accommodate this change. This could potentially act as a barrier to entry and result in a significant level of customer disruption, thus detracting from the overall customer experience and undermining trust in the energy market as a whole. We believe that this applies in particular to the proposed removal of the shipper role in gas.

With reference to Ofgem's current work in relation to the introduction of principles-based regulation within the GB energy market, ICoSS is of the view that a preferable approach would be the provision of a clear, prescriptive regulatory framework within which market participants can operate. ICoSS does not believe that this approach would be likely to have a detrimental effect on competition nor innovation as potentially less regulatory resource would be required to interpret a prescriptive, unambiguous framework of this nature than would be the case if participants were required to interpret general principles for themselves. We believe this is particularly true in relation to resource-constrained smaller participants whose staff might have a lesser degree of market experience. Nonetheless, if Ofgem is minded to continue with the development of principles-based regulation, this must be progressed in the manner stated whereby general guidelines are issued without the regulator inadvertently operating a mixed approach with participants being required to provide evidence of compliance with Ofgem directives on a regular basis. This approach would seem to us to run counter to the general concept of principles-based regulation and to create a greater, rather than a lesser, regulatory burden for market participants.

Q2 What are the most significant barriers to disruptive new business models operating in the retail market?

In relation to the non-domestic sector, one of the most significant barriers to the creation of new business models is the potential requirement for non-domestic suppliers to install SMETS2 meters at the premises of certain smaller business customers. We are sure that Ofgem is aware of the current difficulties experienced by market participants in accessing this technology in the required volume and the view of ICoSS is that the needs of these customers can be met through existing AMR metering technology, particularly as they will neither require nor benefit from the vast majority of the functionality provided by SMETS2 meters, designed as they are for domestic customers. It is highly likely that, given this current lack of availability, non-domestic suppliers will have no option remaining to them other than to cease their rollout. This could be expected to create

difficulties for both suppliers and customers and could easily be circumvented by allowing non-domestic suppliers to continue to install AMR metering technology at relevant customer premises without the need for SMETS2. ICoSS believes that this will result in a less confusing and easier to manage experience for the customer, not least as a result of the fact that customers and suppliers will not then need to manage a mix of SMETS2 and AMR meters resulting in a potentially highly confusing degree of additional complexity due to both DCC and non-DCC communications needing to be managed by both the supplier and the customer. We hope that Ofgem will give due consideration to this issue.

On the issue of overall simplification of industry codes, ICoSS is supportive of this work but remains concerned that in certain areas, as with the proposed creation of the new Retail Energy Code (REC), parts of other codes are being used to create a new code rather than the opportunity being taken to reduce the overall number of codes and simplify the regulatory framework within which the market operates. Overall governance of some codes is also a concern, for example in the case of DCUSA, where a password system is in use to restrict access to certain data rather than making this freely available. The voting system in use in relation to some codes, being based on the number of meter points supplied, also acts to undermine the principle of an equal and balanced level of influence over changes to the relevant code and is likely to negatively affect efforts to effect innovative change by new entrants through amendments to that code. We believe that something similar to the governance and voting processes used under the Uniform Network Code (UNC) would be a more suitable basis for any future industry codes.

Q3 What other supply market arrangements would provide a better default for disengaged consumers, whereby they are protected adequately and are able to access the benefits of competition?

A number of significant changes have resulted from the CMA's investigation into the market and we believe that sufficient time should be provided for detailed feedback to be gathered from these in terms of the manner that they operate and the level of increased switching that has resulted from them. We therefore feel that designating further changes in the non-domestic market may be premature at this stage.

Q4 How big an issue is it that we do not currently regulate intermediaries in the energy market? Is there a case for doing so? If so, how would we best do it?

ICoSS believes that determining whether market intermediaries should be regulated by Ofgem is a matter for it and the Government to determine. However, ICoSS is of the view that the current situation, whereby suppliers are essentially required to police the actions of third parties and may be held liable by Ofgem for the actions of these, should be subject to review as the risk this creates may deter new entry into the market and, in particular, the non-domestic market where third parties often provide essential services in terms of encouraging disengaged customers to switch supplier and secure a better deal.

I trust this response will prove helpful, please do not hesitate to contact me should you have any questions or require any further information.

Best regards,

Chris Hill / 07776 137403 / chris@icoss.org