



Retail Price Regulation Team,
Ofgem,
9 Millbank,
London,
SW1P 3GE

6th April 2018

Dear Sirs,

Market Basket working paper

Thank you for the invitation to respond to the above working paper. Bristol Energy is an independent supplier of electricity and gas with a business model that has a regional focus on the South West of England, although we supply customers across Great Britain. We have a mission to fight fuel poverty and be a force for social good.

Bristol Energy supports Ofgem's current thinking that a market basket approach to setting a price cap has several difficulties that make using a cost approach more reliable. Whilst we understand the cost approach will be more complex to administer, we believe it is less likely to have unintended consequences.

One area that the working paper does not seem to address is the potential for a feedback loop where the imposition of the cap influences the wider tariff market and the market basket. Whilst the cap is only set to cover SVT and default tariffs, it will be difficult for suppliers to have tariffs with prices above the cap without a viable justification that customers will accept. If costs increase significantly, suppliers in the competitive market may migrate to, but not exceed the cap for fear of losing customers. As a result, the increase in costs will not properly appear in the market basket, and thus costs will not be properly reflected in the cap. This could result in supplier failure either from cash flow issues, or, if they do exceed the cap, loss of customers.

We also believe that there is significant correlation between the cheapest tariffs in the market and poor customer service. An issue which Ofgem is currently seeking to address with a number of the cheapest suppliers. Ofgem needs to be careful not inadvertently classify exceptional customer care as an inefficiency, and thus force suppliers to offer an acceptable level of service and no higher. Some suppliers, also have a *raison d'être* beyond being an energy supplier. Bristol Energy seeks to address fuel poverty and prices appropriately to allow us to fulfil that mission. We would not want to curtail that mission in order to meet a price cap based on cheaper rivals who have no such mission.

Ofgem is quite right to identify that some of the cheapest tariffs in the market are loss leaders (or nil margin) from new market entrants seeking to grow. Ofgem should also recognise many suppliers also reprice on a regular basis, sometimes weekly in a volatile market period. This being the case, the market basket cap will always lag the reality of the market. If a cap is based on the cheapest tariffs in the market, then there is significant risk that the scope to manage rising costs efficiently would be curtailed. If Ofgem does consider using a market basket, then it should research the average "shelf life" of tariff prices and seek to review the cap on a similar frequency.

Whilst we understand the logic of excluding suppliers below a minimum size from the basket, it would seem equitable that in doing so then such suppliers should be excluded from the cap. As the legislation does not give Ofgem the powers to exercise such discretion, then we feel all suppliers should be eligible to be in the basket, with other criteria dictating the cap, such as excluding loss making businesses.



If a market basket approach is taken then we believe it should include a wide range of suppliers and Ofgem must satisfy itself that any tariffs at the extremes of the standard deviation in either direction are not distorting the basket. This would also minimise the ability of a supplier to influence the basket either directly or by tacit collusion.

I hope you find this response useful. If you have any queries, please do not hesitate to contact me.

Kind regards,

A handwritten signature in black ink that reads "Chris Welby".

Chris Welby
Head of Regulation