



5th Floor
8 First Street
Manchester
M15 4RP

www.gazprom-energy.com

By email to: CDconsultations@ofgem.gov.uk

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FAO Jonathan Blagrove,

Gazprom Energy Response to the Strategic Review of the Microbusiness Retail Market

Thank you for providing the opportunity to comment on the strategic review into the Microbusiness Retail Market. We have set out our responses to the specific questions following this letter. We are **happy for this covering letter to be shared however due to the commercially sensitive nature of the information in the Appendices we consider it to be Strictly Private and Confidential.**

We will explore the questions raised in the Opening Statement in more detail and with accompanying evidence in Appendix 1 following this letter. In responding to the call for inputs we would first like to make some general comments and observations.

In the Opening Statement it is stated that microbusinesses face many of the same issues as domestic consumers, citing the Forward Work Programme 2019-21. Whilst we acknowledge microbusinesses may operate differently to larger I&C consumers, we believe there are important distinctions that differentiate this market from the domestic one. Businesses are materially different in how and why they consume energy and, therefore, benefit from a market that can offer bespoke pricing and contracting options that better fit their business model and align with how they generally buy and sell other products.

The domestic market is dominated by a small number of large Suppliers, many with large numbers of “sticky” customers who have never actively engaged in the competitive market. The majority of these Suppliers focus on offering dual fuel arrangements. In the Microbusiness market competition is more diverse and prevalent, with the lack of “sticky” customers and the incumbent dominance seen in the domestic market. It is estimated that only 40% of SME non-domestic sites have both Gas & Electricity, thus limiting the relevance and availability of dual fuel contract products. Where both fuels are present it is often the case that customers prefer having separate, bespoke gas and electricity contracts to ensure they are getting the best arrangements possible for their business needs.

We would also note the varying Credit Risk exposure in the Microbusiness market compared with the domestic market. The Office for National Statistics reports that business “death rates” have increased from 10.2% in 2016 to 12.2% the following year. It is therefore crucial that Suppliers in the Microbusiness market conduct robust credit assessments and retain the ability to refuse supply.

The ability to offer bespoke pricing means that prices in the Microbusiness market are not characterised by “Tariffs” and contract prices provide a sharper price more aligned with the Customer’s commercial position. Thus bespoke prices in the Microbusiness market are more dynamic as it is reflective of the movement of the wholesale markets and the Customer’s commercial position.



This means that an automated, price comparison service, as utilised in the domestic market, is not readily transferable to the non-domestic market and this is reflected in our experience of the utilization of our online pricing tool, which we were required to implement.

In contrast and in our experience, Brokers and Third Party Intermediaries (TPIs) are able to provide more tailored support to help facilitate the contract negotiations on behalf of customers in the Microbusiness market. As a result TPIs play a very active and important role in the Microbusiness (and the extended non-domestic) market but, in contrast to Licenced Suppliers, have no formal regulatory framework.

On this basis we would, therefore, support the implementation of a suitable regulatory framework to ensure TPIs operate in an appropriate manner, in the interest of the consumer. We supported Ofgem's review into a Code of Practice in 2016 and the one prior to that in 2013. Gazprom Energy and other Suppliers, Brokers and TPIs were involved in the development of the draft Code of Practice and we were disappointed when the review ended without the introduction of a more robust compliance framework for TPIs.

With an Ofgem approved TPI Code of Practice regime we believe that Ofgem, Suppliers and Consumers would have even more confidence in the TPI market, which would logically lead to an increase in engagement from Microbusiness consumers. Indeed we have implemented our own Code of Practice which is largely based on the work undertaken previously. We believe the majority of TPIs operate to a high standard and in our experience are happy to be party to such arrangements, however there will always be some unwilling to enter into such arrangements, unless forced to do so, as reported by the CMA in their investigation into the market in 2016.

Whilst many Suppliers now require Brokers and TPI's to enter into such arrangements without overarching obligations and a common Code of Practice we will always be exposed to those who choose to play "fast and loose" in the market. Regulating this key area of the Microbusiness market via an obligation on Suppliers to only deal with parties who are suitably accredited will provide an important protection for Microbusiness customers and is similar to the approach taken with Meter Asset Managers under the MAMCoP.

When regarding the evidence gathered as part of this review we do not believe there is the need to fundamentally alter the framework of the Microbusiness market. Indeed some of the CMA remedies into the Microbusiness market have proved ineffective and in some cases perhaps detrimental to the Customer journey and we would caution introducing further changes that are not proven to be cost effective and in the interests of the consumer.

We appreciate the opportunity to respond and input into this Strategic Review and explore the questions raised in the Opening Statement in more detail and with accompanying evidence in Appendix 1 following this letter. Should you have any questions relating to the information provided in our response, please do not hesitate to contact Steve Mulinganie our Regulation Manager steve.mulinganie@gazprom-energy.com in the first instance.

Kind regards,

Grace Rothery
Head of UK Retail
Gazprom Energy