



Department
of Energy &
Climate Change

The Rt Hon Amber Rudd MP
Secretary of State

Department of Energy & Climate Change
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Roger Witcomb
Investigation Panel Chair
Competitions Market Authority

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By email

31st July 2015

Dear Roger,

CMA PROVISIONAL FINDINGS IN THE ENERGY MARKET INVESTIGATION

This Government has always been clear that effective competition is integral to ensuring that consumers get the best possible deal on their energy bills. Competition not only bears down on prices but it also drives innovation and a focus on customer service. Your Provisional Findings document, along with the Notice of possible remedies, is a key milestone in your important investigation into competition in the energy markets. You have undertaken an impressive amount of analysis over the past year and the detail of the Provisional Findings document is testament to this.

I welcome your provisional conclusions that the design of the Capacity Market is broadly competitive and that the move from the Renewables Obligation to Contracts for Difference as a means of supporting low carbon generation should provide more efficient outcomes. I am looking at your proposed remedies relating to the detailed implementation of Contracts for Difference with interest and can assure you that a competitive process has always been at the heart of our approach to allocation. The Government is committed to meeting our environmental commitments as cost-effectively as possible.

I note that you continue to maintain your views expressed in the Updated Issues Statement with respect to competition operating well in the wholesale electricity market and to vertical integration not hindering competition. These are important findings and I hope that your work in combination with the detailed supporting material will settle this debate for the GB energy markets.

The Government has been concerned that the retail market has not been working well for consumers, which is why we have continued to take action to promote switching and provide help for the most vulnerable through initiatives such as our Power to Switch advertising campaign and the Big Energy Saving Network (which provides face to face advice on energy bills to the most vulnerable).

I am not surprised by your findings in relation to the retail markets but your analysis provides a further reminder of the extent of the lack of engagement in the market (with 56% of respondents to your survey saying they had never switched supplier) and the rising differentials between standard variable tariffs and fixed tariffs. This serves to highlight the importance of taking action, in particular to help the unengaged consumer.

Similarly, we have previously worked to seek to ensure that the energy market serves microbusinesses well. The material in your report however sheds useful further light on the nature and extent of the issues facing the microbusiness market – a very complex market where you highlight significant issues in relation to transparency and the approach to default tariffs that need to be addressed. This suggests that greater efforts should be made in this area.

Industry governance and the administration of the various industry codes that manage the intricate workings of the energy markets have escaped detailed scrutiny over recent years and I am pleased that you have been looking into this area. The other area of interest in your provisional findings is your assessment of the respective roles of DECC and Ofgem and how we interact – I will consider carefully the issues you raise. It is critical for consumers and businesses that the model of independent economic regulation remains robust and the principles of economic regulation are observed. Government would not want to take action that creates doubt about these. At the same time, in those instances where Ofgem and Government interests and analysis coincide, it is right that we work closely together in the interests of the consumer.

Notice of Possible Remedies

The Notice of possible remedies includes a number of different potential actions and I welcome the wide-ranging approach you have taken. Tackling the issue of unengaged consumers is a very challenging one that will require a number of different angles of attack. Designing effective prompts to consumers to engage in the market will require careful consideration and input from behavioural and commercial experts, as well as testing with consumer panels. Your enquiry is an opportunity to develop and put in place the interventions that should ensure that the market operates for the consumer on a sustainable basis. I know you will be assessing carefully the impact of your proposed remedies (in full or in part) on the market issues you have identified.

I am particularly pleased to see your recognition of the central role that smart meters can play in encouraging switching and promoting engagement in the energy markets, as well as the benefits they will bring to PPM customers. It will be important that all suppliers maintain their focus on delivering the roll-out of smart meters by the end of 2020, to the benefit of all customers. I also agree about the importance of half hourly settlement in facilitating greater innovation in time of use tariffs and will shortly be bringing forward proposals for pre-legislative scrutiny that will seek to give Ofgem greater powers in order to deliver settlement reform more quickly.

There are a number of proposed remedies that have potentially wide-ranging consequences, including the introduction of locational loss charging and a safeguarding tariff. The latter is a potentially significant transitional intervention to protect consumers until other remedies lead to the market operating more effectively – it will be important to design any measure so that it delivers protection to those currently on poor value standard variable tariffs, yet does not disincentivise switching. I was pleased to see that you are consulting on detailed implementation questions for such measures, as well as on the measure itself.

This Government very much supports the independent investigation into the energy markets by the CMA as part of our efforts to keep bills down. My Department will continue its work alongside the CMA investigation to promote switching and help vulnerable consumers. In particular we will be:

- Working with Ofgem with the aim of delivering next day switching by 2018
- Developing a switching guarantee with industry to give consumers more reassurance regarding the reliability of the switching process
- Delivering the next phase of the midata programme (mentioned in your possible remedies document) so that suppliers are required to automatically transfer key customer data to trusted third parties when customers are seeking quotes through switching sites
- Taking forward the work of the Consumer Vulnerability Task Force I set up towards the end of the last Parliament and delivering the 3rd year of Big Energy Saving Network which provides face to face advice to vulnerable consumers through community-based organisations

I consider that all of these actions are very much in line with your Provisional Findings with their focus on the need for greater engagement in the market and assistance for those cannot or will not switch. In addition I will be considering all the proposed remedies carefully. As you will know this Government is committed to acting on the final recommendations from the CMA, therefore I hope that there will be opportunities for my officials to engage with counterparts in the CMA to discuss the practical implementation of the proposals in some detail.

Yours sincerely

AMBER RUDD