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FAO Competition & Markets Authority

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5th August 2015

Dear Sirs,

Energy Market Investigation: Notice of possible remedies

We refer to the CMA's Notice of Possible Remedies dated 7 July 2015 in connection with its energy market investigation. We note that the CMA invites views on the effectiveness and proportionality of the proposed remedies, and in that context Gazprom Marketing & Trading Retail Limited ("**Gazprom Energy**" or "**we**") hereby submits its response. We have set out our responses to the CMA's questions on each remedy in the Appendix to this letter.

Since 2006, Gazprom Energy has operated in the UK non-domestic sector as a gas supplier and a gas shipper. In addition, since 2010 we have also operated in the UK non-domestic power market as an electricity supplier. We are therefore a relatively new entrant to the non-domestic market. In this context, we are particularly interested in the CMA's comments in connection with microbusinesses, as it is in this area that we have participated and acquired customers within the existing regulatory framework.

We do not consider our response to be confidential and are happy for our comments to be shared with other interested parties.

Should you have any questions relating to the information provided in our response, please do not hesitate to contact Steve Mulinganie (Regulation & Compliance Manager) using the contact details below.

Yours faithfully

For and on behalf of

Gazprom Energy

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APPENDIX

<i>Remedy 1 – Introduction of a new standard condition to electricity generators’, suppliers’, interconnectors’, transmission, and distribution licences to require that variable transmission losses are priced on the basis of location in order to achieve technical efficiency</i>
(a) What would be an appropriate method for ensuring that variable transmission losses are priced on the basis of location?
Response: We can see the potential benefit of this proposed remedy, but we believe that it should be subject to appropriate cost/benefit analysis. Other than this, we do not have any specific comments on the type of methodology which should be adopted.
(b) How should the variable transmission losses be allocated between generators and suppliers? (i) Is the 45-55 split appropriate or could efficiency be improved further by changing this allocation?
Response: No comment
(c) What will be the distributional impacts of this remedy? Should the CMA take these into account in coming to a view on the proportionality of this remedy?
Response: No comment
(d) Should the CMA implement this remedy directly, ie via an order, or should it make a recommendation to Ofgem to initiate a BSC modification instead? Are there any particular aspects of Ofgem’s objectives and duties to which the CMA should have regard if implementing this remedy by a licence change?
Response: No comment
<i>Remedy 2a – DECC to undertake and consult on a clear and thorough impact assessment before awarding any CfD outside the CfD auction mechanism</i>
(a) Would the remedy ensure that CfDs that are allocated outside the auction mechanism are awarded only when the benefits of doing so outweigh the costs?
Response: No comment
(b) How much discretion should DECC retain in terms of the weight it places on each factor that it takes into account in coming to a decision on which projects to award CfDs outside the CfD auction mechanism? Should DECC be required to consult on and determine these factors and their relative importance in advance to enhance transparency? Should the weighting of each factor be constant across projects?
Response: No comment
(c) In which exceptional circumstances should DECC be able to allocate CfDs outside the auction process? For example, for reasons of industrial policy, where there are wider market failures, or where there may be insufficient competitors to hold an auction?
Response: No comment
<i>Remedy 2b – DECC to undertake and consult on a clear and thorough assessment before allocating technologies between pots and the CfD budget to the different pots.</i>
(a) Would the remedy ensure that future decisions by DECC on the allocation of technologies and the CfD budget to the different pots are taken in a robust and transparent manner?
Response: No comment

(b) Is the remedy likely to result in a positive change in how DECC makes decisions regarding the allocation of the CfD budget to the different pots?

Response: No comment

(c) How regularly should DECC review the allocation of technologies between pots? What information should DECC publish when deciding to amend the allocation of technologies between pots? Should it also on a regular basis consult and/or publish reasons for not amending the allocation of technologies between pots?

Response: No comment

(d) Should DECC be limited in the maximum proportion of the CfD budget that it can allocate to each of the different pots?

Response: No comment

Remedy 3 – Remove from domestic retail energy suppliers’ licences the ‘simpler choices’ component of the RMR rules.

(a) Would this remedy be effective in increasing competition between domestic retail energy suppliers and/or between PCWs? What additional tariffs would energy suppliers be likely to offer that they currently do not due to the RMR restrictions?

Response: Gazprom Energy does not operate in the domestic market, and therefore we do not wish to comment on this question.

(b) Removing the four-tariff rule is likely to increase the range of tariffs on offer and result in different tariffs being offered on different PCWs. Are there, therefore, any remedies that the CMA should consider alongside this remedy, to encourage domestic customers to use more than one PCW in order to facilitate effective competition between PCWs and domestic energy suppliers?

Response: Gazprom Energy does not operate in the domestic market, and therefore we do not wish to comment on this question.

(c) We note that if this remedy were to be imposed, Ofgem’s Confidence Code requirement for PCWs to provide coverage of the whole market appears likely to become impractical as the number of tariffs offered increases and PCWs agree different tariff levels and commissions with energy suppliers. Should this element of the Confidence Code be removed, therefore, as part of this remedy? If so, are alternative measures to increase confidence in PCWs required? For example, in order to maintain transparency and trust, should PCWs be required to provide information to customers on the suppliers with which they have agreements and those with which they do not?

Response: Gazprom Energy does not operate in the domestic market, and therefore we do not wish to comment on this question.

(d) Rather than removing all limits on tariff numbers and structures, would it be more effective and/or proportionate to increase the number of permitted tariffs/structures? If so, how many should be permitted and which tariff structures should be allowed?

(i) For example, would requiring domestic energy suppliers to structure all tariffs as a single unit rate in pence per kWh, rather than as a combination of a standing charge and a unit rate, reduce complexity for customers, while avoiding restricting competition between PCWs? Alternatively, would such a restriction on tariff structures have a detrimental impact on innovation in the domestic retail energy markets?

Response: Gazprom Energy does not operate in the domestic market, and therefore we do not wish to comment on this question.

Remedy 4 – Possible measures to address barriers to switching by domestic customers

(a) Will the roll-out of smart meters address the feature of uncertified electricity meters? If not, what additional remedies should we consider to address this feature?

Response: Gazprom Energy does not operate in the domestic market, and therefore we do not wish to comment on this question.

(b) Will the roll-out of smart meters address the barriers to switching faced by customers with Dynamic Teleswitched (DTS) meters? If not, what additional remedies should we consider to address this feature?

Response: Gazprom Energy does not operate in the domestic market, and therefore we do not wish to comment on this question.

(c) Should PCWs be given access to the ECOES database (meter point reference numbers) in order to allow them to facilitate the switching process for customers?

(i) To what extent would this reduce the rate of failed switches and/or erroneous transfers?

(ii) Are there any data protection issues we should consider in this respect?

(iii) Will access to this database still be relevant once smart meters have been introduced?

Response: Gazprom Energy does not operate in the domestic market, and therefore we do not wish to comment on this question.

(d) Should there be penalties for firms that fail to switch customers within the mandated period (currently 17 days, next day from 2019)? How should these penalties be administered? At what level should the penalties be set? Should customers who suffer a delayed or erroneous switch receive the penalty as compensation?

Response: Gazprom Energy does not operate in the domestic market, and therefore we do not wish to comment on this question.

(e) When next-day switching is introduced, will a ‘cooling-off’ period still be required? Could it be avoided by requiring that no exit fees are charged within two weeks of switching?

Response: Gazprom Energy does not operate in the domestic market, and therefore we do not wish to comment on this question.

(f) Are specific measures required to facilitate switching for customers living in rented accommodation (either social or private)?

Response: Gazprom Energy does not operate in the domestic market, and therefore we do not wish to comment on this question.

(a) Does the ‘Midata’ programme, as currently envisaged, provide sufficient access to customer data by PCWs to facilitate ongoing engagement in the market? Should PCWs – with customer permission – be able to access consumer data at a later date to provide an updated view on the potential savings available?

Response: Gazprom Energy does not operate in the domestic market, and therefore we do not wish to comment on this question.

(b) Do customers need more or better information or guidance on how their new smart meters will work?

Response: We believe the industry has put in place appropriate and proportionate arrangements to support the roll-out of smart metering and to provide information and guidance to customers. In particular, we would highlight the formation of Smart Energy GB with its independent program to engage with customers, and provide holistic advice and guidance supporting the ongoing rollout of smart metering.

<i>Remedy 4b – Removal of exemption for Centrica on two-year inspection of gas meters</i>
(a) Would this remedy be effective in removing the distortion to competition that currently exists as a result of Centrica’s derogation on the inspection of gas meters?
Response: Gazprom Energy does not operate in the domestic market, and therefore we do not wish to comment on this question.
(b) Would it be preferable to remove Centrica’s derogation, or extend the derogation to other suppliers?
Response: Gazprom Energy does not operate in the domestic market, and therefore we do not wish to comment on this question.
(c) If Centrica’s derogation were removed, should it be phased out over a period of time? If so, how long should Centrica be given in this respect?
Response: Gazprom Energy does not operate in the domestic market, and therefore we do not wish to comment on this question.
<i>Remedy 5 – Requirement that energy firms prioritise the roll-out of smart meters to domestic customers who currently have a prepayment meter</i>
(a) Would this remedy be effective in allowing prepayment customers to engage fully in the market and benefit from a wider range of tariffs? Would it be effective in reducing the costs of supply to prepayment customers?
Response: Gazprom Energy does not operate in the domestic market, and therefore we do not wish to comment on this question.
(b) Which version of this remedy would be more effective and/or proportionate?
Response: Gazprom Energy does not operate in the domestic market, and therefore we do not wish to comment on this question.
(c) Would any additional or alternative measures be required to ensure that this remedy comprehensively addressed the overarching feature of weak customer response arising in particular from those with prepayment meters
Response: Gazprom Energy does not operate in the domestic market, and therefore we do not wish to comment on this question.
(d) What issues may arise as a result of prioritising the installation of smart meters in the homes of customers who currently have prepayment meters?
Response: Gazprom Energy does not operate in the domestic market, and therefore we do not wish to comment on this question.
(e) Would it be more effective and/or proportionate to require energy suppliers to accelerate the roll-out of smart meters across the retail markets as a whole, in order to facilitate engagement more broadly, rather than focusing on customers on prepayment meters?
Response: Gazprom Energy does not operate in the domestic market, and therefore we do not wish to comment on this question.
<i>Remedy 6 – Ofgem to provide an independent price comparison service for domestic (and microbusiness) customers</i>
(a) Would this remedy be effective in increasing customers’ trust in PCWs and thereby encourage engagement in the markets and switching?

Response: We do not believe that there is sufficient evidence to demonstrate that this remedy would have the effect of increasing consumer trust, engagement and switching. In fact, we believe that introducing a centralised PCW run by Ofgem would be an inappropriate and unwarranted intervention into the competitive PCW market. Such an intervention will by its very nature disrupt and distort the existing competitive PCW market. This could lead to existing PCWs exiting the market, thereby reducing customer choice and creating confusion.

We would also highlight that a central PCW would have a very complex task in collecting and maintaining all the latest prices (including non-tariff prices for non-domestic suppliers) for all products from all suppliers, to ensure that it provides customers with accurate information. If this task is not performed correctly, the regulator itself may be at risk of being accused of providing a sub-optimal service leading to customer detriment.

Finally we note that this proposed remedy is focussed solely on price, and therefore does not recognise that energy suppliers also compete in other key areas such as service, energy solutions and sustainability. This is particularly relevant in the microbusiness market where, based on our experience, customers may take into account non-price factors when selecting an energy supplier. By creating a centralised PCW, the customer's choice will be guided by price which creates a risk that other avenues of competition are foreclosed.

(b) Should this service be online-only, or should it also operate over the telephone for those customers without access to the internet?

Response: As noted above we believe that such intervention in the competitive PCW market is unwarranted.

A telephone service would be a further intrusion into the competitive non-domestic market, as this type of services is already operated by TPIs and brokers.

Notwithstanding this, we believe that if this remedy is implemented then it should be provided both online and over the telephone. We would highlight that the provision of a phone-based service would require a robust and transparent compliance framework, with published scripts to ensure that any advice given to customers is appropriate.

(c) Is there a risk that such an independent service could undermine the development of other PCWs in the energy sector? How could this risk be mitigated?

Response: Yes.

As noted above we believe the introduction of a centralised PCW will undermine the existing PCW market. There is also the risk that a centralised PCW could have the effect of bringing to an end any future innovation in this market, or any new market entry. It could also potentially close off other avenues of competition, such as energy services offered by PCWs, as the customer will be guided solely by price.

We cannot see how this risk could readily be mitigated.

(d) Should the Ofgem website quote the energy suppliers' list prices only? Or should it seek to provide full details of all quotes available on the market (including on other PCWs), ie function as a meta-PCW?

Response: As noted above we believe that such intervention in the competitive PCW market is unwarranted.

If such a "meta" centralised PCW was created then, to have the desired effect, it would need to be comprehensive and include all products available in the market. Other PCWs will have varying cost bases and charging structures, so the options available from them should vary. In order to ensure that the service is informative, comprehensive and authoritative, customers would need all of this information as well as what suppliers would offer directly.

By its nature such a comprehensive centralised service would foreclose the competitive market, as it would drive out any alternative service.

(e) How could we ensure that an Ofgem price comparison service was robust in terms of offering all tariffs available on the market? Should there be an obligation on retail energy suppliers and/or PCWs to provide information to Ofgem on their tariffs?

Response: As we have noted above, the price comparison service would need to have all of the latest prices for all products from all suppliers. In the non-domestic (micro business) sector this would be very complex, as suppliers do not generally have "tariff" prices but rather offer customers a contract price based on the prevailing market prices. It would be unduly complex and burdensome for suppliers and the PCW to continuously update the prices applicable to these customers, and we cannot see how this would operate in practice.

(f) Should any price comparison service operated by Ofgem be transactional, ie be able to carry out switches for consumers, or should it provide information only?

Response: We believe that if the PCW extended its operation to include switching, this would be a further intervention into a competitive market, which could have a damaging effect on other PCWs, TPIs and brokers who already provide this type of service.

(g) What would be the likely costs to Ofgem of offering this type of price comparison service? Would Ofgem need additional funding and/or statutory powers in order to provide this type of service? If so, where should this funding come from?

Response: We would expect the costs for providing this type of service to be significant. Ofgem would need to develop new skills and competence in an area of a market in which it has little pre-existing knowledge or experience. It will need to invest in IT systems, specialist providers and appropriate support functions.

Any costs associated with the decision to implement this remedy will of course, in the end, be borne by consumers directly or indirectly. Careful consideration of the costs and benefits of such intervention should be undertaken to justify such action.

(h) How should customers be made aware of the existence of this service? Should information be provided by energy suppliers on bills/during telephone calls? Should PCWs be required to provide links to the Ofgem website during the search process to allow customers to cross-check prices?

Response: If the service is intended to be truly independent, then the onus should be on Ofgem and/or the Government to promote and fund it.

(i) Is there any additional information that Ofgem should provide on its website relating to energy suppliers and/or tariffs to facilitate the customer search and switching process?

Response: As noted above, in order to be credible, the service would need to provide full market information including all the latest prices (including non-tariff prices for non-domestic suppliers) for all products from all Suppliers.

On the basis that Ofgem provide a PCW service and this foreclosed the market to other providers then it should also have to provide information on additional services offered currently offered by those parties such as energy efficiency and managing renewals.

Alternatively if Ofgem didn't provide the PCW service (which would be our preference) then it could provide more help and assistance to consumers in engaging with the current market e.g. implementing the TPI CoP, Ofgem approved PCWs

Remedy 7 – Measures to reduce actual and perceived barriers to accessing and assessing information in the SME retail energy markets

Remedy 7a – Introduction of a new requirement in the licences of retail energy suppliers to provide price lists for microbusinesses on their own websites and to make this information available to PCWs

(a) Would this remedy be effective in increasing price transparency for microbusiness gas and electricity tariffs? Would it serve to make comparisons between different suppliers easier, either directly or by encouraging the development of PCW services for microbusinesses? If not, are there other measures that would encourage this development either as an alternative to this remedy or in conjunction with it?

Response: We believe this change would have a significant impact on the way the non-domestic energy sector currently operates. In most instances the prices offered to one non-domestic customer (including microbusinesses) will be different to that offered to another non-domestic customer, even where the same wholesale price curve is applied.

In the liquid / competitive SME retail energy sector, suppliers generally provide cost-reflective prices to customers, which may vary by (amongst other factors) region, meter type, consumption profile, total consumption and credit position. Fundamentally, within the microbusiness sector, size and type of supply can differ significantly, which means that prices for microbusinesses will not always be the same.

Furthermore, where prices are requested at different times of day, or on different days, the wholesale price curve is also likely to have changed, which would have an impact on the price quoted to the customer.

A requirement to provide a price list for microbusinesses would likely either lead to greater complexity and confusion for consumers, or a socialised/generic price that would reduce cost-reflectiveness at a time when other policy initiatives are looking to promote it.

As a more general comment, this remedy is targeted at increasing transparency in order to improve competition. In our view there is no clear evidence to suggest that competition is limited due to a lack of transparency.

(b) Do microbusinesses have sufficient access to the information they need (for example on their meter types) in order to engage effectively in the search and switching process?

Response: Some customers are better informed than others, but in our experience, when engaging in the switching process the TPI or supplier will identify what is needed and will engage with the customer to obtain this

Generally, we believe that customers benefit from being able to access their MPRN or MPAN to check the meter details attached to it and who supplies them. This helps when there is a Change of Tenancies (i.e. where a new occupier takes over a site).

(c) How long should energy suppliers be given to provide the required information?

Response: This would depend on the relevant information being requested. As noted above, in the non-domestic market there are not generally any standard tariffs and so it would be unduly complicated to provide an up-to-date list of current prices.

(d) Should energy suppliers be permitted to fulfil this requirement by providing an automated quoting service on their websites (where microbusinesses can put in their details in order to obtain quotes) rather than a list of prices?

Response: Yes. As noted above, in the non-domestic market, there are not generally any standard tariffs and so it would be unduly complicated to provide a list of prices.

Gazprom Energy already provides an automated quoting service on our website, as do other suppliers. We believe this provides a simpler, more customer friendly route to gaining a direct quote than a complex list of prices.

We do not believe a licence condition is required to introduce what competition has already brought about.

Remedy 7b – Introduction of rules governing the information that TPIs are required to provide to microbusiness customers

(a) Would this remedy be effective in improving transparency over incentives and trust in TPIs in the energy sector? How could the CMA ensure that this remedy was enforced, ie that TPIs were providing the specified information?

Response: Ofgem, together with TPIs and suppliers have spent a significant amount of time and effort to develop a draft TPI Code of Conduct which is intended to address these concerns. Unfortunately the development of the TPI Code of Conduct was put on hold whilst the CMA's investigation ran its course.

We would support the re-commencement, as soon as reasonably practicable, of the work being undertaken by Ofgem and the industry for managing TPIs under an approved Code of Conduct.

(b) What information should be provided by TPIs to microbusinesses in order to enable them to make informed choices?

Response: Microbusinesses cover a broad range of customers with varying energy needs. Therefore the information needed by specific microbusinesses will vary depending on the particulars of their business. The draft TPI Code of Conduct (noted above) provides a high-level framework for managing the passing of information between parties. We support the re-commencement of the work on the TPI Code of Conduct in order to ensure that this is implemented as soon as reasonably practicable.

(c) Could the provision of certain types of information have unintended consequences (eg customers choosing tariffs based on commission rates rather than total price)? If so, are there any steps that could be taken to mitigate this effect?

Response: Microbusinesses should be free to make a decision according to whichever criteria they wish. By providing as much transparency as reasonably practicable gives the relevant business the best chance of making an informed decision.

(d) Should the specified information be provided to customers in writing or orally (or both)? At what stage in the sales process should this information be provided?

Response: Specified information should always be confirmed in writing

(e) Should this remedy be introduced in addition to Ofgem’s proposed code of conduct? Or should only this remedy (or only Ofgem’s code of conduct) be introduced?

Response: We support a single approach. As detailed work has already been performed on Ofgem’s Code of Conduct, we support the implementation of this as soon as reasonably practicable.

f) Are there any additional measures that should be implemented alongside this remedy to enhance its effectiveness?

Response: We have not identified any additional measures

Remedy 8 – Introduction of a new requirement into the licences of retail energy suppliers that prohibits the inclusion of terms that permit the auto-rollover of microbusiness customers on to new contracts with a narrow window for switching supplier and/or tariff

(a) Would this remedy be effective in allowing microbusiness customers greater opportunity to engage (by removing the narrow window in which they can choose not to roll-over automatically)?

Response: We believe it is important to distinguish between the illiquid microbusiness market, relating to customers who have never engaged with the competitive market i.e. sticky customers of the Big 6 suppliers, and the competitive microbusiness market in which suppliers compete for customers (customers are fully engaged in this market).

As a starting point, we would challenge the reference to a “narrow window” as a microbusiness customer is free at any point up to 30 days before the end of their contract to terminate on the supply end date. In fact, in our experience, many customers issue the notice of termination shortly after the start of the contract.

We believe that any intervention should as far as possible avoid damaging the competitive part of the microbusiness sector. It is important to note that in the competitive microbusiness market the price on roll-over is generally a commercial price as opposed to a default tariff. In our experience removing the option for customers to roll-over on to a commercial rate exposes them to potentially more expensive “Out of Contract” (OOC) rates.

Analysis has shown, as part of Ofgem’s review of roll-overs, that where customers were denied a roll-over contract, the average period for which customers were then exposed to OOC rates was greater than 12 months. In an illiquid market this proposed approach may actually be detrimental to microbusiness customers.

Importantly, the Big 6 have recently voluntarily removed roll-overs from their products and this action has directly targeted this illiquid non domestic microbusiness market.

We therefore believe that no further action is warranted at this time.

(b) Are there any means by which energy suppliers could circumvent this remedy to continue to lock customers into energy tariffs that they have not chosen for extended periods of time?

Response: No comment



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(c) What is the minimum or maximum notice period that customers should be required / allowed to give in order to exit a contract that they have been rolled on to?

Response: We do not believe that it is clear what an optimum period would be. However we would note that the shorter the period then the higher the relative costs would be because the reduced notice period would mean suppliers are less able to hedge forward risk

(d) Should energy suppliers be required to inform customers that they are nearing the end of their contract and prompt them to switch?

Response: It is important to note that Ofgem have recently implemented changes that require suppliers to provide on customers' bills the date the contract is due to end, and the latest date by which termination can be served (Supplier Licence Conditions 7A.10a – 10b).

Below is an example of the text which Gazprom Energy puts on bills, where a termination notice has already been submitted and the contract has expired: -

Your contract with Gazprom Energy terminated on the 31/03/2015; all charges from this date will therefore be charged at our out of contract rates. These rates will continue to apply until you either enter into a new contract with Gazprom Energy or transfer to another supplier. If you wish to discuss the terms of a new contract please contact us on 08452300653 or e-mail SME@gazprom-energy.com

Below is an example of the text which Gazprom Energy puts on bills where a termination has not been received from the customer: -

Your contract end date is 30/04/2016. If you wish to terminate your contract on this date and prevent automatic roll over, and we have not already acknowledged your termination notice, we must receive this in writing on or before 31/03/2016. Your termination notice must be sent to us by recorded delivery or by e-mail to terminations@gazprom-energy.com. If we have acknowledged your termination notice and you do not accept our renewal offer, your contract will terminate on the contract end date. If you fail to move to a new supplier after the contract end date, you will be charged at our out of contract rates for your supply

Pursuant to (Supplier Licence Condition 7A.6 - 7A.8), we also provide microbusiness customers with prior notice 60 days before the end of their contract, on a Renewal Notice. This notice includes the customer's annual consumption details, current contract price as well as the new contract price.

Below is an example of the text from a Renewal Notice issued by Gazprom Energy:

Your contract for the supply of gas with Gazprom Energy at the site(s) associated with the above contract group is due for renewal on 01/08/2015 and we're pleased to make you the following renewal offer:

Renewal offer	Current rates
12 months at a price of 2.802p/kWh	Unit price of 3.147p/kWh
Daily standing charge of £0.70	Daily Standing Charge of £0.20
Annual Quantity of 17578 kWh	
Your new contract end date will be 31/07/2016	

Remedy 9 – Measures to provide either domestic and/or microbusiness customers with different or additional information to reduce actual or perceived barriers to accessing and assessing information

(a) Does the current format and content of energy bills facilitate engagement by customers? Is there additional information that should be included on bills? Should the quantity of information on bills be reduced to enhance clarity?

Response: There is already a significant amount of information which suppliers are required to provide on energy bills. We believe that all the relevant information is already included as well as clear contact details should customer's wish to find out more specific information.

Improving engagement with disengaged customers is unlikely to come about through longer or more complex invoices.

Finally we would note the Government's general indication in the Summer Budget 2015 to review industry schemes and to simplify them where practicable. This does not align with introducing greater complexity to energy bills

(b) When customers seek to switch tariffs, are they given enough/too much information on the terms and conditions of their new contract?

Response: We believe microbusiness customers are provided with all the relevant information they may need. Microbusiness customers receive a copy of all terms and conditions as well as the Principal Terms and Conditions for microbusiness customers, which highlights, the key information that applies to them.

We believe that it is important that the information provided to microbusiness customers is easy to read and not overly technical. It may therefore be beneficial to focus on the "ease of use" of the information provided, rather than the volume of information.

(c) Should customers be prompted to read their meters (quarterly or annually), either by information on their bill or by a phone call from their energy supplier? Would this increase engagement by improving the accuracy of billing?

Response: We do not believe that further complexity on invoices will bring about improved engagement. We recognise that some customers may benefit from receiving reminders to submit meter readings, but in order to provide this reminder by telephone, customers will need to have given consent to be contacted in this way. Gazprom Energy currently sends regular emails to the majority of our customers reminding them to submit meter readings (customers are given option to elect into this service).

We would highlight that the ongoing rollout of Advanced and Smart Metering will enable increased remote reading of meters. This will ensure that customers receive bills based on actual meter reads.

(d) Once customers reach the end of a contract period, should subsequent bills highlight that they have now been moved onto the standard variable tariff and/or other default tariff and encourage them to check whether they are on the most appropriate tariff for them?

Response: As previously noted, in the competitive microbusiness market the customer is given a new contract price and is not rolled onto a default tariff.

The recent changes to the supply licence conditions noted above (Supplier Licence Conditions 7A.10a – 10b) mean that microbusiness customers already receive relevant information at the end of the contract period. Should a customer proactively terminate their contact and subsequently fail to negotiate a new price or switch to a new supplier, the customer’s invoice will highlight the date on which their contract terminated and that out of contract rates will apply from that date.

Remedy 10 – Measures to prompt customers on default tariffs to engage in the market

(a) What information should be included in the prompts to customers on default tariffs in order to maximise the chances that they are acted upon?

(i) Should customers who have failed to engage be informed that they are ‘no longer under contract for energy’, that they have been ‘rolled onto a safeguard tariff’, or an alternative message, for example, emphasising how many customers in their area have switched in the last year?

Response: The recent changes to the supply licence conditions noted above (Supplier Licence Conditions 7A.10a – 10b) mean that microbusiness customers already receive relevant information at the end of the contract period. Should a customer proactively terminate their contact and subsequently fail to negotiate a new price or switch to a new supplier, the customer’s invoice will highlight the date on which their contract terminated and that out of contract rates will apply from that date.

(b) How should prompts be communicated to customers? For example, there is some evidence from the financial sector that text prompts are particularly effective at raising awareness in terms of overdrafts etc.

Response: We believe that suppliers should assess the most appropriate method of communicating with their customers. In the non-domestic market, it may be difficult to send text messages (unlike in the domestic market). Gazprom Energy offers all customers the opportunity to view and manage key contract data via our Web portal.

(c) What should be the timing and frequency of prompts in order to balance effectiveness in terms of encouraging engagement with the cost and potential irritation that might arise from repeated prompts?

Response: We believe that suppliers should assess the most appropriate method of communicating with their customers, as well as the timing of that communication. We believe that highlighting the relevant information on microbusiness customer invoices and providing the renewal notification is already a sufficient level of prompting.

(d) Who should provide the prompts: customers’ energy suppliers, Ofgem or another party?

GE Response: For non-domestic customers we believe that any communication should be from the relevant supplier.

(e) Are there particular groups of customers who should receive prompts at specific points? For example, should house-buyers be prompted to engage with the market on completion of their purchase?

Response: Gazprom Energy does not operate in the domestic market, and we have no comment on this question.

(f) Is there benefit in others in the markets, such as rival energy providers or TPIs, being made aware of which customers remain on default tariffs (or have been rolled on to the safeguard tariff)? In this respect, data protection issues would need to be carefully considered. The ability of other market participants to identify inactive customers, however, has the benefit of potentially encouraging the customer to switch tariffs once out of contract.

Response: There could be a potential benefit, but this would need to be considered very carefully in the context of data and consumer protection regulations to ensure that there are no unintended consequences of making information more widely available. If focused on illiquid incumbent microbusiness (Big 6) then this could enhance competition however it is unclear if such disclosure of information will lead to increased customer switching.

Remedy 11 – A transitional ‘safeguard regulated tariff’ for disengaged domestic and microbusiness customers

(a) Should the safeguard tariffs be set on a cost-plus basis, or should they be related to other retail prices?

Response: We do not support the imposition of a “safeguard regulated tariff, particularly in respect of the section of the microbusiness market which is already fully engaged with the market. Further, we do not believe that this proposed remedy is an appropriate way to address concerns around customer engagement and switching. The issue here is over customers switching suppliers not the prices that they pay.

The only area that we may consider there to be a necessity for such type of intervention is in the illiquid microbusiness sector, which is dominated by the Big 6.

If such a tariff were implemented, we believe it would be very difficult to set a price on a “cost-plus” basis. The reason for this is because suppliers purchase the commodity using different hedging strategies, have different costs to serve and be exposed to different levels of bad debt and write-offs (due to different customer portfolios). Therefore, identifying a cost to cover that would be fair to all suppliers will be incredibly difficult.

If this type of tariff were to be implemented, then we would suggest that it should fall away once a customer has proactively engaged with the market i.e. after the first switch away from the incumbent.

(b) If the safeguard tariffs were set on a cost-plus basis, which approach(es) we should consider to determining the wholesale energy cost element of the tariffs? What are the relative merits of the proposed approach(es) in the context of the purpose of the safeguard price cap?

Response: It would be difficult to recommend an appropriate strategy until the specifications of the tariff are known.

(c) Could the imposition of a transitional safeguard price cap result in energy suppliers reducing the quality of service offered to customers on this tariff? Is this risk reduced by customers' ability to choose alternative, unregulated tariffs?

Response: In our experience, the same quality of service is provided to customers on default rates as standard contracts. We do not believe that customers on a safeguarded tariff would be treated any differently to other customers.

(d) Should all domestic and microbusiness customers on default tariffs be rolled onto the safeguard tariff, or should this remedy only apply to a subset of these customers? If this remedy should not apply to all customers, why? And how should energy suppliers identify those customers who should be covered?

Response: As previously set out we do not support the setting of a safeguarded tariff and believe such a move in the competitive micro business sector to be unwarranted.

The only area that we may consider there to be a necessity for such type of intervention is in the illiquid microbusiness sector, which is dominated by the Big 6. If this type of tariff were to be implemented, then we would suggest that it should fall away once a customer has proactively engaged with the market i.e. after the first switch away from the incumbent.

(e) How should the headroom be calculated to provide the right level of customer protection while not unnecessarily reducing healthy competition?

Response: As per our answer to question 11 b it will be extremely difficult to calculate the cost and a fair margin, due to the number of market participants with differing risk profiles.

(f) What regulatory information would be required to set the safeguard tariffs?

Response: We are not aware of any specific regulatory information that would be required to set such tariffs.

(g) How long should the safeguard price caps be kept in place? Is it appropriate to include a specific sunset provision, or should there be a commitment to review the need for and level of the safeguard price caps after a certain period of time?

Response: As previously set out we do not support the setting of a safeguarded tariff and believe such a move in the competitive micro business sector to be unwarranted.

The only area that we may consider there to be a necessity for such type of intervention is in the illiquid microbusiness sector, which is dominated by the Big 6. If this type of tariff were to be implemented, then we would suggest that it should fall away once a customer has proactively engaged with the market i.e. after the first switch away from the incumbent.

(h) How frequently – if at all – would the level of the cap need to be reassessed? If the cap is set on the basis of directly passing through wholesale and network costs, then it may not be necessary to revisit the safeguard price level.

Response: Assuming a methodology was used then the hedging strategy, if any, within the methodology would determine the refresh rate.

(i) Which energy suppliers should be subject to the safeguard cap, and why? Should it be restricted to the Six Large Energy Firms, or should all retail energy suppliers be covered?

Response: If the safeguarded tariff is implemented at all, we believe that it should apply only to the Big 6 Suppliers, who are the only parties with illiquid incumbent microbusiness customers.

(j) How should the transition from the current arrangements be managed? We note that an immediate requirement to change the prices for all customers on standard variable tariffs, rollover, evergreen, deemed and out-of-contract tariffs might put pressures on certain suppliers more than others. Should there be, therefore, a period over which the safeguard price cap is phased in? If so, how long should this period be and how should the transition work?

Response: The specific timing would depend on the scope of the tariff and which suppliers are affected. If it was targeted at the illiquid incumbent micro business customers then we believe that it could be brought in reasonably quickly.

(k) Would energy suppliers have the ability to circumvent the remedy, for example, by encouraging disengaged customers to switch on to less favourable, unregulated tariffs, and how such risks could be mitigated?

Response: No comment

(l) Should the CMA set the level of the safeguard price caps itself, or should make a recommendation to Ofgem to do so?

Response: As such an arrangement would endure for some time then we believe it is logical for it to be administered by Ofgem.

(m) Are there any potential unintended consequences of setting safeguard price caps, for example, in terms of their potential impact on the level of other, unregulated tariffs?

Response: In our view, intervention in competitive and liquid sectors always brings a risk of unintended consequences. We strongly advocate avoiding any such risk.

As previously noted, by targeting the illiquid incumbent micro business customers (supplied by the Big 6 suppliers), the risk of contamination into competitive markets would be limited.

Remedy 12a – Requirement to implement Project Nexus in a timely manner

(a) How long should the parties be given to implement Project Nexus?

Response: Whilst we share the CMA’s concerns over the project management of Project Nexus, we would note that since the CMA’s information gathering exercise, the industry has jointly with Ofgem taken action to address this.

With the introduction of an Industry Steering Group and the engagement of PWC to provide industry project management, there is now a properly constructed “left to right” project plan which for the first time gives a robustly calculated Go Live Date for the Project of 1st October 2016.

Subsequently, National Grid have raised Modification 0548 (Urgent) - Project Nexus – deferral of Implementation Date to implement this date in Code <http://www.gasgovernance.co.uk/0548>

Gazprom Energy has also raised Modification 0549 - Improving Arrangements for Managing Major Industry Changes which seeks to provide an enduring industry structure for managing future major industry changes. <http://www.gasgovernance.co.uk/0549>

We therefore do not believe that it is necessary for the CMA to impose any remedies on this matter.

(b) Should the CMA implement this remedy directly (eg via an order and/or a licence modification) or should it make a recommendation to Ofgem to implement the remedy?

Response: As noted above, we do not believe that it is necessary for the CMA to impose any remedies on this matter. It is noted that National Grid have raised Modification 0548 (Urgent) - Project Nexus – deferral of Implementation Date to implement this date in Code <http://www.gasgovernance.co.uk/0548>

Remedy 12b – Introduction of a new licence condition on gas shippers to make monthly submissions of Annual Quantity updates mandatory

(a) Is it proportionate to require the mandatory monthly updating of AQs? Would it be more proportionate to require less frequent updating of AQs? Would less frequent updating still be effective in terms of removing the scope for gaming of the system?

Response: With the introduction of Nexus, the AQ will be able to be recalculated on a monthly basis (Rolling AQ).

Additionally the removal of Reconciliation By Difference (RBD) and introduction of individual meter point settlement removes any existing incentive to optimise AQ’s

Remedy 13—Requirement that domestic and SME electricity suppliers and relevant network firms agree a binding plan for the introduction of a cost-effective option to use half-hourly consumption data in the settlement of domestic electricity meters

(a) Would this remedy be effective in stimulating tariff innovation, in particular in terms of time-of-use tariffs?

Response: We are not yet convinced whether this remedy is required. As smart and advanced meters are rolled out to domestic and SME customers, then half-hourly (HH) settlement and tariff innovation may develop without the need for regulation.

As noted below there could be significant commercial impacts on some customers of moving to HH settlement, while the operational challenges of moving a relatively small number of profile class 5-8 customers over to HH settlement is currently playing out under P272.

(b) How long should the parties be given to agree this plan?

Response: We believe the costs and benefits of all electricity customers moving to half-hourly settlement needs to be considered carefully as there will be winners and losers from this change.

Those without the flexibility to move their consumption to a different time of day both in the domestic and microbusiness sectors could see significant increase in energy costs.

The change will require the installation of smart or advanced meters before sites can be moved to half-hourly settlement and so a number of technical and commercial issues will need to be considered as part of the plan.

The industry is currently in the process of transferring profile class 5-8 customers to Half-Hourly settlement with a final deadline of 1st April 2017. Consequently, we believe the industry will be in a better position to review Profile Classes 1-4, once the transition of larger businesses is well underway.

(c) What are the principal barriers to the introduction of a cost-effective option to use half-hourly consumption data in electricity settlement for profile classes 1 to 4? How could these be reduced?

Response: The principal barrier could be considered the complexity of moving to HH settlement. Customers at the smaller end of the non-domestic sector are generally favouring simpler pricing and bills that provide budget certainty.

HH settlement will inevitably expose customers to “peakier” prices than they will have experience in the past. As electricity is becomes more “cost reflective” there will inevitably be customers who do not have the time or expertise to assess their energy consumption in the required detail.

Equally, while certain customer’s benefit from Time of Use tariffs; there will be others who lose out where their household/business is not in a position to significantly adjust the time of day when they consume electricity. In addition, there may well be an increase in costs for data aggregation and the manipulation of that data.

(d) Should the use of half-hourly consumption data in settlement for these profile classes (or certain of them) be optional for energy suppliers, or should it be mandatory? What are the advantages/ disadvantages of each approach?

Response: It is already an option to settle any customer using half-hourly consumption. However, recent changes to the DCUSA have made it be more commercially viable while as noted above, the BSC change P272 is requiring that Profile Classes 5-8 with an advanced meter are settled half-hourly.

There would likely be efficiency gains from a forecasting perspective where data is settled against actual HH data rather than a profile shape, but these benefits may not be enough to offset the cost increases that many SME customers will face where they consumer at peak times.

The commercial and operational impacts of moving customers to half-hourly settlement will need to be carefully considered before setting an appropriate date or glide path.

(e) Are there any distributional considerations that we should take into account in relation to time-of-use tariffs? For example, might vulnerable customers end up paying more if they fail to change their consumption patterns? Or will the decline in the required generation capacity outweigh any increase in peak prices?

Response: It will depend on when the customers currently consume electricity. If their usage is off-peak they will likely benefit while if their usage is during peak hours their costs will likely rise. It is likely that customers without the flexibility to change their consumption patterns will pay more for their electricity.

(f) When should the (optional/mandatory) use of half-hourly consumption data replace settlement based on assumed customer profiles? Is it necessary to wait until 2020 when all domestic customers have smart meters installed? Alternatively, could the use of half-hourly consumption data be phased in for those customers with smart meters prior to 2020?

Response: It is already an option to settle any customer using half-hourly consumption. However, recent changes to the DCUSA have made it be more commercially viable while as noted above, the BSC change P272 is requiring that Profile Classes 5-8 with an advanced meter are settled half-hourly.

The commercial and operational impacts of moving customers to half-hourly settlement will need to be carefully considered before setting an appropriate date or glide path.

Remedy 14 – Remedy to improve the current regulatory framework for financial reporting

(a) Should the scope of the individual areas reported on align with the scope of the markets as set out for generation and retail supply in our provisional findings? For example, should a requirement to report wholesale energy costs on the basis of standard products traded on the open wholesale markets be imposed?

Response: No comment

(b) What regulatory reporting principles would be particularly relevant to the preparation of regulatory financial information in this sector?

Response: No comment
(c) Would summary profit and loss account and balance sheet information for each area be sufficient to enable the effective regulation of the sector and the development of appropriate policies? Or should the large domestic and SME energy suppliers be required to collect and submit additional, more granular financial information?
Response: No comment
(d) Should Ofgem require that the summary profit and loss and balance sheet information be audited in accordance with the regulatory reporting framework?
Response: No comment
(e) Should this remedy apply to the firms that are currently under an obligation to provide Ofgem with Consolidated Segmental Statements? Or should it apply to a larger or narrower set of firms?
Response: We believe it should only apply to those firms required to provide Ofgem with Consolidated Segmental Statements to avoid unnecessarily increasing the burden and cost to participate on smaller challenger suppliers.
(f) What would be the costs of imposing such a remedy? We note that some firms' reporting systems are not currently capable of providing information on such a 'market-orientated' basis and that our remedy could require significant additional system requirements.
Response: No comment
(g) Should the CMA implement this remedy by way of licence modifications or by way of a recommendation to Ofgem?
Response: No comment
(h) To what extent should this financial information on performance be published?
Response: No comment
<i>Remedy 15 – More effective assessment of trade-offs between policy objectives and communication of impact of policies on prices and bills</i>
(a) Are such assessments of the impacts of policies on prices, bills and on the trilemma trade-offs carried out to a sufficient extent currently? Are there specific areas where such assessments are not currently carried out, or might be undertaken more comprehensively?
Response: It is important that any policy development is accompanied by robust and transparent cost benefit analysis and this should be subject to review / challenge as the policy is developed.
(b) Are the assessments sufficiently scrutinised?
Response: It is important that any policy development is accompanied by robust and transparent cost benefit analysis and this should be subject to review / challenge as the policy is developed.

(c) Are the assessments sufficiently disseminated to interested parties? Which parties need to be informed about these assessments?
Response: No comment
(d) Is there an additional role for either Ofgem and/or DECC in carrying out assessments of the impacts of policies and trilemma trade-offs, or communicating the results of them?
Response: No comment
(e) Should further, authoritative analysis be published to assist the public discussion? What form might this take? Which existing bodies are best positioned to undertake this role?
Response: It is important that any policy development is accompanied by robust and transparent cost benefit analysis and this should be subject to review / challenge as the policy is developed including were relevant third party independent review.
(f) Is there a sufficient case to justify creating a new, independent body tasked with scrutinising the impact assessments of policymaking bodies and/or providing authoritative analysis to inform the public debate?
Response: No strong evidence has been provided to justify the creation / cost of yet another industry body.
<i>Remedy 16 – Revision of Ofgem’s statutory objectives and duties in order to increase its ability to promote effective competition</i>
(a) What specific changes should be made to Ofgem’s statutory objectives and duties in order to ensure that it is able to promote effective competition in the energy sector? (i) For example, would it be possible to revert to the role of competition that existed before the introduction of the Energy Act 2010?
Response: If the CMA believe that the changes implemented since the Energy Act have materially impacted Ofgem’s ability to discharge its obligations then providing clarity that Ofgem’s primary function is to promote effective competition would be welcome.
<i>Remedy 17 – Introduction of a formal mechanism through which disagreements between DECC and Ofgem over policy decision-making can be addressed transparently</i>
(a) In which circumstance should Ofgem have the right or duty to express views on DECC’s policies and DECC/Ofgem strategy for their implementation? What format should such views take? Should DECC have a duty to formally respond?
Response: We would strongly support a clear transparent framework which sets out the roles for both DECC and Ofgem in the energy market. This should include (i) how policy is developed: (ii) cost/benefit analysis is undertaken; and (iii) how any disputes are arbitrated.
(b) In what circumstances should Ofgem have the right to seek a formal direction from DECC to implement a certain policy?
Response: No comment
(c) Would DECC’s formal direction undermine (or appear to undermine) Ofgem’s independence?

Response: If any decisions are undertaken in accordance with the framework agreed by both parties, then we do not see how any decisions could undermine either party.

We believe that the provision of a transparent view as to how decisions have been made would increase the confidence of market participants in the relevant regulatory bodies.

(d) Would other measures be effective in promoting the independence of regulation?

Response: No comment

Remedy 18a – Recommendation to DECC to make code administration and/or implementation of code changes a licensable activity

(a) Is this recommendation likely to result in a positive change in the initiation, development and/or implementation of code changes that pursue consumers’ interests?

Response: As an independent supplier, we have found it relatively easy to participate in the code change process in the gas market.

In particular we find the “critical friend” role provided by code administrators (in the gas market) to be very useful in developing proposals.

As such we do not see the immediate benefit arising from licensing the activity.

(b) Would this remedy be more effective if certain functions currently carried out by code panels and/or network owners (eg setting up working groups) were transferred to code administrators?

Response: As an independent supplier we find the current industry structure in the gas market to be straightforward and easy to engage with, so we do not see the immediate benefit from such a change.

(c) Would this remedy be more effective if Ofgem or DECC were to impose stricter requirements relating to the selection (eg competitive tender), financing and/or independence of code administrators (and/or delivery bodies)?

Response: As an independent supplier we find the current industry structure in the gas market to be straightforward and easy to engage with, so we do not see the immediate benefit from such a change.

(d) Should Ofgem’s ability to use this power be limited to defined circumstances (eg modification proposals which are relevant to Ofgem’s principal objectives) or should it be left to Ofgem’s discretion?

Response: We do not believe that it is necessary for Ofgem to have the ability to introduce changes. We believe that the current industry structure provides appropriate checks and balances to avoid an unwelcome shift in market power creating a bias towards a particular market participant.

Remedy 18c – Appointment of an independent code adjudicator to determine which code changes should be adopted in the case of dispute

(a) Are there benefits in terms of independence, impartiality and/or industry know-how of an independent code adjudicator that are not available with Ofgem, given its other responsibilities, when undertaking the adjudicator role?

Response: We can see some merit in an independent code adjudicator. In particular we feel that this would be necessary should Ofgem be able to raise modifications itself.

(b) Would there be unintended consequences, arising for instance from an increased lack of coordination between code modification governance, licence modifications and legislation?

Response: As previously noted we feel the current arrangements are balanced fairly. Any intervention should therefore be subject to a cost / benefit analysis.