

4 August 2015

Dear sir/madam

Please find the response from the Energy Special Knowledge Group from The Chartered Institute of Procurement & Supply on the CMA Energy Market Investigation and notice of possible remedies.

CIPS is the leading global professional body for the procurement and supply management profession, with a community of 114,000 in 180 countries and experts in many sectors. We are a not-for-profit and exist for the public good.

CIPS believes this to be one of the most important consultations in recent years and has provided detail and solutions in the following areas:

- 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.
- Remedy 6 – Ofgem to provide an independent price comparison service for domestic (and microbusiness) customers.
- 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.
- Remedy 7b – Introduction of rules governing the information that TPIs are required to provide to microbusiness customers.
- 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.

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- 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.
- Remedy 10 – Measures to prompt customers on default tariffs to engage in the market.
- Remedy 11 – A transitional 'safeguard regulated tariff' for disengaged domestic and microbusiness customers.

The Energy SKG is a collection of procurement professionals from the energy sector who have volunteered their time as members of CIPS to promote best practice procurement and supply management, and develop tools and templates, viewpoints and statements on the industry.

Kind regards

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CMA Energy Market Investigation

Notice of possible remedies

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

CIPS does not wish to see further increases in the level of complexity in transmission charging, which is already a matter of concern. Complexity presents problems enough for the energy industry itself, let alone for industrial consumers whose commercial focus cannot be concentrated to the same degree on energy matters. Increasing complexity in charging is likely to risk further disadvantaging energy consumers. This is one reason why we are sceptical about whether there would be benefits from auctioning transmission capacity. We do not oppose the possibility of altering the balance of revenue collected by means of connection and transmission charges to move towards a 'shallower' charging regime, but we are sceptical that a radical redefinition of transmission charging boundaries is desirable.

We acknowledge a case can be made that removing generator-only spurs (for example) could reduce a potential barrier to new entry, but equally this would represent a transfer of risk from individual generators to the market as a whole, and hence to consumers. We would only support a redefinition of charging boundaries if a mechanism was in place to ensure any resulting increases in transmission charges were adequately offset by reductions in distribution charges that fully reflected any reduced costs of connection. We believe that, should such changes be proposed, distribution companies must be required to pass through cost reductions on a transparent and equitable basis. This concern is especially acute for extra-high voltage (EHV) consumers, who are at risk of unfair treatment as their revenue does not fall within the scope of distribution company price controls.

Peak Charging

We believe that the system of transmission charging should adequately reward users who are able to manage demand at times of system stress, which enhances security of supply for all, and reduces the need for costly additional investment in transmission capacity. The current 'triad' charging system fulfils this requirement, it is well understood by consumers, and has a proven track record. We would not support changes to the current system that reduced incentives to manage peak demand, which would have negative consequences for system security. We believe interconnector users should be subject to the same incentives to manage demand in order to avoid peak transmission charges as other UK consumers.

Losses

We would question the need to introduce charging for transmission losses on a zonal basis, whether within England or Wales or across a GB-wide market. Even if there is a case to be made for locational losses for generation, it is not obvious why this principle should necessarily apply for demand. We are aware of no evidence that UK industry would locate – still less re-locate – in response to changes in transmission price signals. Introducing zonal transmission losses would therefore create winners and losers amongst individual

industrial consumers, depending on the historical accident of their existing location, but no net benefit for consumers as a whole. We firmly reject charging for transmission based on a marginal loss approach. Analysis has shown this would result in exaggerated locational signals, and hence distort charges. We note that, in any case, losses account for a small and declining proportion of the transmission system operator's costs.

Locational Signals

We would question the extent to which existing demand/generation should be penalised in the event that the geographic distribution of demand/generation alters over time. Our comments on the ability of industry to re-locate in response to locational losses (above) apply equally to other transmission charging signals. We would support the principle that there should be incentives on new generation to be efficiently located.

This reduces the cost of transmission to be borne by new or existing generators that do not require costly extensions, and helps minimise the overall costs of the system that are ultimately borne by consumers. We are concerned that, in an attempt to ensure that the government's ambitious renewable targets are met, there will be pressure to further subsidise uneconomic wind generation by smearing the costs of extending the national transmission system across all users.

For example, offshore wind operators might be able to locate a substantial distance away from the existing transmission network, necessitating major new investment that provides little or no benefit to other users, without being exposed to the costs of extending the system. Such costs should be internalised, and the associated risks borne by the scheme's backers, not consumers – if this reveals such investments to be even more uneconomic than their proponents claim, so be it.

Remedy 6 – Ofgem to provide an independent price comparison service for domestic (and microbusiness) customers

(a) Would this remedy be effective in increasing customers' trust in PCWs and thereby encourage engagement in the markets and switching?

CIPS recognises that there is a limited choice of PCWs for use by microbusinesses due to lack of knowledge of their existence, limited availability of energy prices and a general lack of trust in the PCWs outputs. Support by Ofgem should be given to "new look" PCWs that do meet the objective of providing a competitive range of prices from many suppliers. We would not encourage or support Ofgem to directly operate this service. We do not see that Ofgem can operate effectively in a dual role of independent regulator and a PCW or TPI. There may be a potential conflict of interest if, for example, it was perceived that Ofgem were supporting a limited number of retail energy suppliers due to its commercial arrangements or if there was not a full spectrum of prices on the site. The additional costs and for developing and running a PCW and time to market An Ofgem run site could also risk being considered as more interference in the retail energy market.

We cannot see how an Ofgem PCW would be beneficial in resolving the trust and engagement issues. CIPS believes that microbusinesses would not trust an Ofgem run site any more than any other site for the reasons mentioned in the report and as stated above.

We would support an Ofgem endorsement or "kite mark" type of system for PCWs that recognise the PCW as independent and providing a competitive platform for microbusinesses

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

Most microbusinesses have access to the internet. The service for microbusinesses should be on-line, but with a chat or telephone contact support network on the PCW if there are issues.

(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?

It would be likely that an Ofgem-operated service would significantly stifle the competition. It is unlikely that anyone would want to try and compete with a regulator operated service especially if the service was financed through a supplier levy or if Ofgem were able to obtain favourable investment terms compared to the open market. If Ofgem pursued developing a PCW we do not see the anti-competitive nature of the regulator operated service being able to be mitigated effectively.

(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?

For a PCW to function, i.e. be used by microbusinesses, it needs to be clear and easy to use. Microbusinesses may find it confusing if the Ofgem PCW was also using prices from other PCWs.

(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?

There should be an obligation on retail energy suppliers to provide process to "approved" (see response to Remedy 6 (a)) PCWs. The prices on the PCWs should also include the commission so that there are no surprises for the microbusinesses in undiscovered charges.

(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?

CIPS would support either approach if it was decided that Ofgem would operate a PCW. However, as previously mentioned, CIPS would prefer that Ofgem did not operate as a PCW or TPI due to the reasons mentioned previously.

(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?

There are both financial, management expertise and reputational costs to Ofgem offering a PCW service.

Financially Ofgem would need to raise the investment through the normal business channels. They would need to prepare a proposal to attract the funding and to meet the criteria that would be put in place by the investors, such as time to market and return on investment. Ofgem would also need to consider whether they would pursue a level playing field by approaching investors or whether the service development, implementation and operation would be financed by a further levy on suppliers which would then be passed on to end users.

Currently Ofgem is managed as a regulator and not as a commercial enterprise. It is doubtful that the organizational has the management expertise or skills to develop and implement a PCW without significantly changing their business structure and appointing the necessary knowledge. This in turn will add to the time to launch such an enterprise.

Alternatively, Ofgem may seek to ask a third party to develop and launch a PCW branded as Ofgem. The roles and responsibilities of such a commercial arrangement such as who would arrange agreements with suppliers, the fees charged to microbusinesses, the extent of the service in terms of usage of the end user, would need to be agreed.

Reputationally, there is limited trust in existing PCWs for microbusinesses (paragraphs 171 to 175 of Energy market investigation - Summary of provisional findings report.). There is a risk that Ofgem may suffer from similar concerns of microbusinesses if they enter the PCW market particularly with perceptions over the organisations independence as a regulator of the industry.

(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?

We do not see that Ofgem, if they run this service, is given an unfair commercial advantage over other PCWs. There is unlikely to be fair competition between PCW providers if there is a requirement to favour one website i.e. Ofgem's site. The introduction of Ofgem PCW does not, in itself, encourage microbusinesses to be more engaged in the energy market.

(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?

There should be clearer and simpler advice for microbusinesses on the cost advantages of looking at their energy bills and how to switch through the use of an Ofgem approved PCW. These approved PCWs should be listed on the Ofgem website and links provided.

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

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

(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?

CIPS supports greater transparency of prices for microbusinesses. Prices should be available on all retail energy supplier websites and this information provided to PCWs. Suppliers' prices must be clear, simple and transparent. It is not clear, though, how useful this would be to microbusiness.

Microbusinesses are not energy experts and they have to operate their business on a day to day basis. Price lists can be useful for microbusinesses by developing confidence and engagement but there can be confusion when trying to understand the impact of the prices from the list on the microbusiness.

What is included in process on the price list may vary between retail energy suppliers and with the existing microbusinesses' tariff. It can therefore be difficult to compare between different suppliers.

It is also recognized that price lists for microbusinesses may change more frequently that for domestic customers to reflect the changing wholesale prices.

It may be more useful to use a trusted PCW that can compare the prices for the specific microbusiness. To increase trust, PCWs and TPIs should clearly and openly declare how many commercial agreements with energy suppliers that they have in place. When acting on behalf of a microbusiness, the PCW must advise as to how many suppliers that they have approached for pricing proposals. All pricing proposals should be available to the microbusiness.

(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?

Microbusinesses generally do not understand the electricity or gas bill in terms of the tariffs and what is included. Nor do they understand their type of meter.

To facilitate greater engagement by microbusinesses, there should be more effective communication from energy suppliers and/or PCWs to identify what information is relevant, for example, when they want to obtain process and to switch. Information can be provided on the retail energy supplier's website, and on the bill, or by email, on such areas as the meter number (mpan or mpr) and what it means, on the tariffs (for example, whether it is default prices as many microbusinesses probably do not know the tariff that they are paying), the annual usage and spend (including whether it is estimated or an actual usage and spend).

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

Energy suppliers should be required to provide price list and the information listed in response (b) above by the end of 2015. This information is mostly available and there is no reason why energy suppliers should delay in providing the data.

(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?

There should be an automatic quoting service on the energy suppliers' website providing that they have published their prices as well. Some suppliers already operate this service but it should be mandated for all energy providers. This will also aid greater transparency leading to the opportunity of microbusinesses being able to more effectively compare prices should they wish to go directly to energy suppliers.

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

(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?

The issues of TPIs have been explored in detail by Ofgem. The introduction of a voluntary TPI Code of Practice that was independently administered would be supported – the TPIs should not be involved in the management of the administration of the scheme due to the risks of domination by the large TPIs. CIPS would also consider that the TPI Code of Practice should also cover PCWs.

Consideration should also be given to the TPI Code of Practice being mandatory. In order not to discourage existing or new competition, there would need to be a threshold such as number of employees and/or volume managed on behalf of clients and/or purchase value of electricity and gas being managed on behalf of clients, below which the TPI Code of Practice would be voluntary.

In order to support the TPI Code of Practice, there should be a licence change on energy suppliers to only have agreements with those TPIs and PCWs who would be approved under the TPI Code of Practice

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

TPIs should be transparent on how they charge for their services. Their charges are likely to be commission based, probably on a pence per unit and may also include a performance factor. Greater transparency should lead to improving trust in the use of TPIs by microbusiness and would enable comparisons between TPIs.

To further improve transparency, TPIs commission rates could also published. This will enable microbusiness to compare costs between TPIs and improve the use of TPIs (and PCWs) further. TPIs may argue that this data is commercially sensitive, as they are agreed between themselves and the energy provider. It would therefore need the energy provider's agreement, or a change in the licence condition, to facilitate this approach.

TPIs may consider that microbusinesses are only interested in the annual energy bill that they are paying. Whilst this may be true, in practice how often do microbusiness obtain prices from a number of TPIs?

(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?

Some microbusinesses may choose a TPI based on their commission rate. However, the commission rate is only one aspect of the relationship between a number of TPIs and a microbusiness – service, price transparency, obtaining a comprehensive of quotations, and post sales support are all important. As previously stated, microbusinesses are more interested in the total cost over the year rather than just the commission rate.

(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?

The information should always be provided clearly in writing. Verbal cold calls should be stopped for all TPIs as there are other means of communication with potential customers. Some end users are receiving several calls a day repeatedly from TPIs and in our view this is an undesirable and disruptive practice. All proposals should 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?

The actions above we have described that are in addition to Ofgem's code of conduct, should be introduced.

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

Remedy	8	–	Introduction	of
<u>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.</u>				

(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)?

All supply contracts should have a specific end date. There should be greater engagement between the energy supplier and the microbusiness prior to the end date to facilitate the switching process.

(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?

Energy suppliers can and do raise objections to microbusinesses switching, such as due or overdue payments. The microbusiness should be notified of the objection and its nature within 24 hours of it being raised in order to resolve the issue.

(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?

14 days' notice is the maximum period in the event that an energy contract has been rolled over.

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

The current energy supplier should send an email directly to the microbusiness giving 3 months notice of the end of the supply contract. This should be followed by a further emailed notice 6 weeks prior to contract end. There should then be another email on the last day of the contract followed by a final email one month after contract end date.

The email should also indicate what the effect would be if the microbusiness does not actively seek a new contract, such as the risk of default tariffs and clearly the extend of the percentage change in total costs. The written note should also outline how the microbusiness can go about seeking a new contract and the options such as PCWs and TPIs that are available.

Remedy

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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?

As explained previously, microbusinesses generally are not energy experts and therefore energy bills can be confusing. Microbusinesses will not tend to look at the detail of the bill; they are more likely to see what the total annual amount they need to pay. This may also be a symptom of the apparent complexity of the bill. The information on the bill is needed by microbusinesses when they are nearing the end of the contract and they want to seek alternative prices.

Energy suppliers can assist significantly in aiding the understanding of microbusinesses in understanding the bills. Improved, directed, jargon free explanations of the different elements on a bill should be provided. This needs to include the information that is needed to be used by microbusinesses when they want to seek alternative prices.

Another source of information is the CIPS website. There is information for use by its members on placing an energy contract and switching to a new supplier, and how to appoint a TPI. There is also a jargon buster as well as news on developments in the energy market.

Ofgem can also provide a similar service: it can provide clear and accessible guidance on energy supplier switching, on how to use a TPI and PCW, understanding energy invoices and similar topics.

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

Microbusinesses have to sign a supply contract either electronically or on paper, they generally do not read all the terms and conditions.

There are a number of key commercial points that should be brought to the attention of the microbusiness prior to signing. These are the prices being paid and any non-tariff charges that will be invoiced, terms of payment, what happens if payments are overdue on supply and on future switching, the period need at the end of the contract to enable switching.

(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?

Microbusiness should routinely read their meters monthly and to provide this information to their energy supplier electronically. This will improve engagement of the energy process and increased awareness of their usage and how it relates to costs.

Microbusiness should be prompted monthly in writing to read their meter. To encourage this practice, the energy supplier may consider a small discount on price as more accurate usage information should help the energy supplier manage their energy portfolio more efficiently.

(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?

To improve the transparency of price information and to encourage increase engagement, the bills should not only state that the consumer is on the standard variable tariff and/or other default tariff, the percentage size of the increase from the previous contract tariff, and how they can address the issue. Customers should also be made aware that they can look for prices from other retail energy providers, or through PCWs.

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?

Microbusiness need to be made aware of the extra cost of the default tariff, as well as the ease and methods of how the microbusiness can obtain alternative prices.

The notification process should commence 3 months before the end date of the contract and should continue after the contract end if the microbusiness has been moved to the default arrangements as the signed contract has expired.

(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. Texts and emails can be effective in communicating the situation. It is recognized that there may be some microbusinesses may prefer to receive a telephone call from the energy provider but this should also be followed in writing.

(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?
This has been answered previously

(d) Who should provide the prompts: customers' energy suppliers, Ofgem or another party?
Communications should be directly from the microbusiness' energy suppliers. This would be part of the relationship between the parties in terms of the service provided to the microbusiness by the energy provider.

(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?

Microbusiness who move into new premises will need to make arrangements to notify the utility services of the new occupancy. The microbusiness' accountant and/or legal advisor should make it known if there are opportunities to reduce the microbusiness' energy costs by looking at alternative energy suppliers.

(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.

There are significant risks in allowing third parties to have such information. Comments have already been made in the CMA report about the perception of microbusinesses of TPIs and PCWs. Information sharing as described would encourage bombarding of the microbusiness with sales calls, junk mail and similar negative practices.

Ultimately it is the issue of the microbusiness to engage with the energy process and in their best interests to seek the best prices. The process for this engagement has been covered elsewhere.

(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?

The potential engagement issue is that the microbusiness is still receiving energy so may consider that they still have a contract. The message should concentrate on the cost impact to the microbusiness of not having a valid contract.

Remedy	11	–	A	transitional
<u>'safeguard regulated tariff' for disengaged domestic and microbusiness customers.</u>				

A safeguard regulated tariff for microbusinesses would aim to provide a transitional window before a new contract is placed.

CIPS does not support the introduction of a safeguard regulated tariff.

The retail energy providers already operate a "default" tariff when a microbusiness falls outside a contract. Having a safeguard regulated tariff, which may be lower or not than the "default" tariff, would not in itself lead to greater engagement.

The risk is that the safeguard regulated tariff will be seen as a “cushion” – if the microbusiness is on this approved tariff, why should they look to obtain any further prices. It therefore is more likely to be a measure that fails to encourage competition.

The introduction of a safeguard regulated tariff will increase the market complexity at a time when greater simplicity would help the participation of microbusinesses. It will be yet another tariff that energy suppliers, TPIs, PCWs and end users will have to consider.

The implementation and operation of a safeguard regulated tariff is complicated, as indicated by the range of questions below. The operator of the safeguard regulated tariff (Ofgem?, CMA?, DECC? or yet another organisation) will have the task of balancing volatile wholesale commodity market prices with the frequency of tariff changes. It could be operated on a principle of contract for differences i.e. a strike price is agreed, with a formula to balance out costs with the market price.

Consideration also needs to be given to the impact on unregulated, competitive tariffs. We are concerned that the reduced desire of microbusinesses in seeking competitive prices may lead to reduced number of retail energy suppliers.

ENDS

Energy Special Knowledge Group – Chartered Institute of Procurement & Supply

MEMBERS:

To be completed by Bruce (add yourself as top and Chair of the group)