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Will Fletcher
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31st July 2015

Dear Will,

We are long term investors in the UK energy market and currently have over £1bn of our clients' money invested in the so called Big Six. There are three particular points that we would like to make with regards to your Energy Market Investigation and the possible remedies. We disagree with your assessment that the large firms have been over earning on their assets. We also disagree that price is the only factor which informs customer choices. We also can't see how a 'safeguard tariff' is desirable for the industry in the long term. Our submission is in three parts:

First, we wholly disagree with your assessment that a safeguard tariff would be an effective way to increase engagement among customers. Indeed, we think that it would do exactly the opposite and disengage customers who might otherwise be minded to switch. Arguably, increasing tariffs at the end of period would be a much better way of driving customer engagement, but would clearly offer no protection. A safeguard tariff would remove the incentive to switch, while the distortion in pricing would create a less competitive market increasing barriers to new entrants.

Furthermore, the introduction of regulatory uncertainty would lead to a substantial increase in the risk of investing in the industry. We would therefore require a higher return on the capital we allocate to these companies which would either mean less investment or higher prices to customers. That Ofgem or the CMA would have to administer the safeguard tariff would also input cost into the industry which would also have to be paid for somewhere in the supply chain. This higher cost will lead to higher customer prices.

Second, we disagree with your assessment that domestic customers have paid £1.2bn more than they would have in a competitively functioning market.

The combined profit of the Six Large Energy Firms has been lower than this figure in each of the last two years. While we agree that there is scope for cost reduction, Energy companies must generate profits in order to compensate equity investors for the risks they take in allocating capital to this industry. It is this profit pool which attracts the number of companies required to protect customer pricing. While the CMA considers the market to be concentrated at 1500 on the Herfindahl-Hirschmann Index, the Department of Justice in the US would consider 1500 to be at the low end of the range at which industries are "moderately concentrated". [1]

Finally, we strongly disagree that price is the sole determinant of customer engagement. As many customers choose to be on tariffs that are more expensive than the cheapest fixed options, there must be other factors which play into their decision making. The service, type of tariff, means of payment and trust of the supplier are all part of the choices that consumers make. The standard variable rate smooths changes in wholesale energy prices for customers, but requires the supplier to take on huge price risk. Only well capitalised companies are in a position to bear this risk.

In conclusion, we see the reintroduction of a form of regulatory price control as disproportionate to the issue of customer engagement. It would have the effect of substantially increasing uncertainty for investors therefore leading to less capital being invested in the industry and/or higher prices for customers.

We strongly believe that a freely competitive supply market is preferable to the quasi regulated one that your proposals would create.

Yours sincerely

Mark Barnett

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[1] http://www.justice.gov/atr/herfindahl-hirschman-index