



Making a positive difference
for energy consumers



OFFICE OF FAIR TRADING

The Rt.Hon Edward Davey MP
Secretary of State
Department of Energy and Climate
Change
3 Whitehall Place
London
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Date: 5th November 2013

Dear Secretary of State

COMPETITION IN ENERGY MARKETS

In its recent response to the Energy and Climate Change Select Committee Ofgem said that it would report annually on the impact of its retail energy market reforms, including on competition. The Government recently announced that Ofgem would work with the OFT and the CMA, as appropriate, in preparing a framework for an assessment of competition in energy markets and would then conduct that assessment. This letter sets out how this work is to be taken forward.

The purpose will be to provide an assessment of how well competition in the markets for gas and electricity is serving the interests of households and small firms in Great Britain. The assessment will build on work already carried out by Ofgem, and will consider whether the reforms already planned and in progress look likely to deliver the desired outcomes in the light of recent developments.

In doing so, the work will focus on the retail side of these markets, but will also look up the vertical supply chain to assess its impacts on competition and on customers. This will, for example, involve considering the impacts of vertical integration and access to wholesale energy markets where appropriate.

The work will build on existing and planned cooperation between Ofgem and the OFT / CMA. It will draw on Ofgem's knowledge and expertise in energy markets and the OFT's wide-ranging experience of assessing competition in a range of different markets with parallel features. Such parallels include, for example, the OFT's work on other markets where switching, complexity or transparency for consumers is a concern, where there is the ability or incentive to discriminate between 'active' and 'inert' consumers and where there are significant elements of vertical integration. It also recognises the expanded role for the CMA in promoting competition in areas covered by sector regulation as provided for in the Enterprise and Regulatory Reform Act 2013 from April 2014.

The first stage of this work, as planned, will be to prepare a framework for preparing the assessment. It is intended to publish the framework during December 2013. We would

anticipate that the framework is likely to include structure, behaviour and outcomes in these markets. It will need to consider both the demand (consumer) and supply (supplier) sides of the markets. It will need to assess consumers' abilities to access, assess and act on information and how companies might make it harder for consumers to do this. Ofgem will work closely with, among others, organisations representing the interests of household and small business consumers and seek their views on the framework.

The second stage will be to conduct the assessment. We intend to publish a first assessment before the end of March 2014. We believe that preparing this swiftly is essential, given the extent of public concern and the need to take actions quickly if problems are found that are not being addressed by current measures.

This timetable has two practical consequences. It will mean that we will not be able to take full account of new consumer research being commissioned by Ofgem. It will also mean that we are unlikely to be able to assess the impact of RMR given some important elements will not yet have been implemented by suppliers. But we believe that the wider public interest is served by moving ahead speedily with this work despite those constraints. Ofgem would expect to publish the outcome of its consumer research in the late spring to complete its first annual review of the state of the retail energy market. This will establish the baseline against which future progress can be assessed.

On completing this assessment, Ofgem and the OFT / CMA, as appropriate, will each need to consider next steps. It is important that we do not prejudge the outcome of the assessment and all options remain open. These include taking no further action, identifying further issues on which to focus assessments in future years, proposing specific reforms or proposing a market investigation reference.

We are copying this letter to the Chancellor of the Exchequer, the Secretary of State for Business, Innovation and Skills and to the Cabinet Secretary.

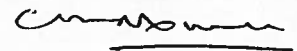
Yours sincerely,



Andrew Wright
Interim Chief Executive
Ofgem



Alex Chisholm
Chief Executive
Competition and Markets
Authority



Clive Maxwell
Chief Executive
Office of Fair Trading